



Confidence Always Forms
the Basis for a Successful Transition

Minding the Blind Spots
in the Pension Debate

Fragmentation in Society
Hampers Pension Reform

Thema: Confidence and Change

CONTENTS

Theme: Confidence and Change

Preface: Confidence and Change 3



Broader Netspar Addresses Confidence and Change
Scientists from other perspectives than the pension sector highlight major changes in social security.



Confidence Always Forms the Basis for a Successful Transition
"Implementing change is only possible once consensus has been reached," says German sociologist Bernhard Ebbinghaus.



Minding the Blind Spots in the Pension Debate
The pension industry must also be mindful of cultural aspects, argues Cok Vrooman.



We Must First Set Some Common Values
Hans Alders thinks that you cannot start thinking about change until all of the parties agree on the common values.



Fragmentation in Society Hampers Pension Reform
Romke van der Veen, a professor of sociology, outlines the issues the pension industry needs to take into account.



Student profile Merle Willemsen
The fact that a company is prepared to immediately do something worthwhile with your research, that is tremendously thrilling.

Recently published papers 20

CONFIDENCE AND CHANGE

The Dutch cabinet is expected to present the details on its vision for the future of the Dutch pension system before summer. In that context, the Dutch Social and Economic Council (SER) is releasing its detailed examination of an "interesting but unknown" variant that combines personal assets with collective risk sharing. These efforts should provide clarity about the future of pensions. It has been a good seven years since the Goudswaard Committee issued its report about the tenability (or untenability) of the system of supplemental pensions. The intervening period has been characterized by a search for a revamped pension contract capable of meeting future demands, while at the same time upholding the values that made the Dutch system so strong in the past. Hopefully, this search will culminate, before the summer, in a clear vision for the future of Dutch pensions.

Even with that vision, a great deal of work will remain to be done. The difficulties go beyond the highly complicated economic issues attached to transition. While we are eager to benefit from the advantages of a new system, we must also make sure that no particular groups are disproportionately harmed in the transition. A fast transition appears possible but will require the engagement and helmsmanship of the government, social partners, and pension fund boards. Moreover, these economic and legal transition problems are not the only issues of concern. We face another – actually weightier – transition problem, and that is the social transition. How can confidence in the pension system be restored? How do we get all of the stakeholders – participants, managers, politicians, and social partners – to join together to undertake the necessary reform?

The social aspects of transition processes were the theme of the Netspar Anniversary Meeting, which was chaired by Romke van der Veen (Netspar and Erasmus University). The interviews and articles in this magazine are the result of that meeting. You will hear from various experts from the academic, professional, and political worlds who study and deal with social change. Important lessons can be learned from the experiences with pension reform elsewhere in Europe, as well as from difficult social confrontations, such as those surrounding noise pollution at Schiphol Airport or the natural gas earthquakes in Groningen, in which the parties directly impacted are often sharply opposed. Building support, openness, and finding common values are the key principles here. In addition, we must contend with an uncertain public, divided into diverse cultural groups, each of which thus has very different aims in terms of how the pension system is restructured.

Netspar will continue exploring the theme of "confidence and change" for the coming year. A project group was formed this month that is being chaired by Romke van der Veen and comprises academics and partners from various disciplines and backgrounds. It will be investigating the issues surrounding transition and restoring confidence in the Dutch pension system.

Casper van Ewijk, Director of Netspar



BROADER NETSPAR ADDRESSES CONFIDENCE AND CHANGE

Confidence and Change was the theme of the eleventh Netspar Anniversary Meeting (NAM) in Tilburg. The topic is in keeping with the multidisciplinary tack Netspar has chosen to take.

"We will be working more closely in the near future with non-economists, such as lawyers, sociologists, and psychologists," Netspar director Casper van Ewijk said, during his introductory speech at NAM in late March. "That was what our partners wanted. They have been struggling with the issue of how to involve participants in the change process."

Another desire of Netspar's partners is that the network make its research more accessible and comprehensible. "One of the ways we are now doing that is with our Netspar Brief, which is aimed at an audience that is not among our primary target groups. The Netspar Brief appears four times a year to showcase our research for a

broader public. The initial response has been positive. The research results are showing up in many places (in the media)," said Van Ewijk. "The project groups, too, in which academics and industry experts work together to elucidate a topical issue and bridge presumed differences, are contributing to better knowledge transfer. A good example was the project group that studied the interplay of pensions, housing, and healthcare. We were able to delineate the topic clearly so that the debate about the best execution can start from a sound premise, as laid out in a good starting document."

As part of its efforts to adopt a broader approach, Netspar has formed a project group (consisting of

researchers and industry experts) that will examine the social implications of changes in the pension domain. "You cannot just leave it up to Donald Duck. This is relatively unfamiliar territory for us economists," Van Ewijk exclaimed. The project group, which will study such issues as legitimacy, support base, and confidence, is being chaired by Romke van der Veen, who was also the honorary chair of the NAM.

The NAM served to illustrate the wider scope Netspar is taking in its activities. Except for Kees Goudswaard, none of the speakers were familiar faces from the pension industry; instead, they were academics from other fields, who could illuminate the vast changes in social welfare from other perspectives.

Goudswaard, who is closely involved in the discussions at the Dutch Social and Economic Council (SER), brought the nearly sixty attendees up-to-date on the latest progress at the SER. "We are comparing Variant 4C, personal pension accounts with collective risk sharing, to the other variants in quantitative and qualitative terms. In many of the scenarios, 4C does somewhat better than the other variants," the economics professor revealed. The council is also cognizant of the danger that participants will lose interest because they can no longer follow what are often highly technical discussions. Accordingly, it hopes to also produce a public version of the recommendations it plans to issue this spring.

Bernhard Ebbinghaus, professor of sociology at the University of Mannheim, contrasted the challenges facing the German and Dutch pension systems. "One noticeable difference is that in Germany, pension issues are primarily the domain of politics, since the first pillar

is so much more important there. In the Netherlands, it is up to the social partners, because the discussion revolves primarily around the second pillar," he pointed out. According to Ebbinghaus, politicians hope the social partners manage to come together on a solution. "Pension reforms are a touchy issue for political parties because the percentage of voters over the age of 60 continues to grow. Moreover, that is a group that turns up to vote in high numbers. In France, that part of the electorate is already over 40 percent," he explained.

Sociologist Van der Veen remarked in this regard that the Dutch consultative model was also under threat. "The unions in the Netherlands are struggling to maintain their standing. They are losing members and large groups of people no longer feel represented by them. As a result, the politicians are taking over more control of pension issues," he observed.

Cok Vrooman, a researcher at the Netherlands Institute for Social Research (SCP), pointed to some of the blind spots for participants in the pension debate. He warned that plans for change should not be based solely on the model citizen who has all their affairs in order. The new system must also take into account people who are less well-off. "We must keep diversity in mind as we consider change," Vrooman said.

According to Hedda Renooij, pensions secretary at the Confederation of Netherlands Industry and Employers (VNO-NCW) and one of the panel members in the concluding debate, the new system will need to be more flexible. "That would allow us to better serve different groups of people. Flexibility is the way to accommodate the diversity among participants," she said.



Michiel Hietkamp Pensioenlab and Chris Driessen FNV



Hedda Renooij VNO-NCW and Jaap van der Spek NVOG

Bernhard Ebbinghaus

"CONFIDENCE ALWAYS FORMS THE BASIS FOR A SUCCESSFUL TRANSITION"

Despite the fact that confidence in pension funds, government actors, and social partners is under pressure, it remains the foundation for the pension systems in the Netherlands and Germany.

"Implementing change is only possible once consensus has been reached," says German sociologist Bernhard Ebbinghaus.

The need to adapt pension systems to economic and demographic realities has become a thorny issue for governments and social partners. Any changes tend to be viewed as a deterioration, which erodes confidence in the system. Ebbinghaus has studied such processes as a professor at the University of Mannheim and is in an excellent position to compare the approaches of various European countries. "In both the Netherlands and Germany, pensions are the topic of heated debate," Professor Ebbinghaus observes. "The direction of the change being taken may be similar, but the starting points vary considerably. The dominant system in Germany is a non-funded pay-as-you-go (PAYG) system, whereas the Dutch system rests on three pillars (the state pension, occupational pensions and personal savings). In that sense, Germany faces a dual challenge: increasing the retirement age, while also boosting savings through the second pillar."

Retirement Age

For decades now, the picture in both countries has been dominated by reforms to the welfare state provi-

sions. "Many countries have taken steps to combat early retirement and raise the retirement age. The first step Germany took, in fact, was to raise the retirement age. That was later reversed. An exception was made for people who had worked longer than 45 years, for instance, and women who stayed home to raise the children receive a higher pension," says Ebbinghaus.

In the Netherlands, reductions in social welfare benefits started with raising the threshold for disability benefits (WAO in Dutch). "Measures have been taken since the early 1980s to put up obstacles to early retirement," Ebbinghaus continues. According to him, a significant difference is that in Germany, it is primarily the politicians who dictate pension policy, whereas in the Netherlands, the social partners play a greater role. "Since the first pillar (of the state pension) is dominant in Germany, the government has much greater say," he says. "In the Netherlands, the second-pillar (occupational) pensions are the domain of employers and trade unions. Any changes are generally the result of negotiations between those two parties."

Even though reforms inevitably met with resistance, the trend toward earlier and earlier retirement has been reversed. "In both the Netherlands and Germany, the percentage of people working longer has been rising for years," Ebbinghaus points out. "They are true champions in Europe in that regard. Southern countries such as France and Italy have not been as successful at keeping older workers employed. It is more difficult there to get reforms to social programs off the ground."

The differences between the Netherlands, Germany, and the Scandinavian countries, on one hand, and southern and Eastern European countries, on the other, can be traced to the intrinsic differences between societies based on mutual trust and those based on conflict. "In Germany and the Netherlands," he continues, "the relationship between employers, unions, and the government is based on trust. Although each of these parties has different interests, they all value consultation and strive to reach consensus."

The situation in the southern and Eastern European countries is polarized. Trade unions are fragmented and oppose the employers and government." It is much more difficult to find support for implementing changes in such a polarized environment. "People in the Netherlands and Germany look for consensus. That takes time, but once there is agreement about a solution, it automatically has a base of support," Ebbinghaus says.

He warns, though, that this base of support is crumbling: "The trade unions have been struggling for years with declining membership. Moreover, there is the issue of who they actually represent. Their members are often insiders: older workers in permanent jobs. Other large groups, such as young people and flex workers, are not members of the traditional unions."

Funded System

Confidence in the old-age provisions in Germany has been severely damaged in recent years. "Both the PAYG system and the funded system are under fire," says Ebbinghaus. "The PAYG system came under a great deal of criticism at the start of this century. People claimed it wasn't sustainable in light of the demographic trends. Insurers and banks were also critical of PAYG, because they wanted to introduce a funded system."

Bernhard Ebbinghaus



That criticism, combined with a desire for relying less heavily on the PAYG system, resulted in the introduction of a funded supplement to the state provision (the Riester Rente). Despite tax incentives, however, workers responded with trepidation. "Then the financial crisis broke out, prompting concerns about the funded system, as well," Ebbinghaus says. "The Riester pension has to contend with high costs because it guarantees payout of at least the level of the contributions. In addition, investment yields were low due to the financial crisis."

He believes it is essential to formulate a long-term policy that does not change every few years. "Pension reforms will have repercussions for the next several decades. If you modify things in the intervening years, it fosters mistrust. The trick is to develop a vision that enjoys broad support. Then you give people an opportunity to become accustomed to the changes and prepare for them," he stresses. As an example of wavering policy, Ebbinghaus points to the easing of the restrictions on the higher retirement age. "The decision to soften the rules for raising the retirement age works out well for certain groups, but it sends mixed signals. People then ask themselves whether the government will actually continue along the path that has been laid out. That increases mistrust," he says.

Despite the similarities in terms of their social economic models, the Netherlands and Germany face different challenges. "In the Netherlands, with its strong second

Pension reforms will have repercussions for the next several decades. If you modify things in the intervening years, it fosters mistrust.

pillar, the discussion revolves around the degree of solidarity in those company plans. The first pillar is not really up for discussion. In Germany, there is a great deal of debate about solidarity in the first pillar," Ebbinghaus point out.

Unlike Dutch social security (AOW), the German state pension is linked to contributions paid over a working life. That means that women who left the workforce temporarily to raise children receive less. "Even the trade unions do not want to simply abandon the link between contributions paid-in and pension received," he muses. These structural differences in old-age provisions mean that independent contractors, too, are in a different position in Germany than in the Netherlands. "AOW is available to everyone who has lived in the Netherlands," he points out. "This helps prevent poverty among the elderly. An independent contractor knows that, in any event, he will receive AOW benefits. In Germany, the growing number of self-employed do not even have that security, because they do not contribute to the state pension system."

Despite the many obstacles, Ebbinghaus remains hopeful that reforms will get off the ground in Germany, eventually leading to a more sustainable pension system. "The economy is doing well in Germany. Some PAYG plans even have surpluses. This is a good time to institute reforms," he says.

The Dutch desire to redesign its pension system meets with surprise in other countries. "You have a solidarity-based system in which almost all workers participate. In the second-pillar DB plans, the social partners are being confronted to some extent with the same problems we face in our first pillar. Who is going to be responsible for possible shortages: the employers, the employees, the government, or future generations? I do not know the ideal solution, but with such a fundamental change, you have to look for a balanced solution and reach consensus. Once that direction is chosen, you have to allow time for implementing those changes. Confidence in change requires confidence in the institutions, along with institutions that do not betray that confidence by focusing on the short term or constantly change course," he concludes.

When people are grouped according to social-economic characteristics, it represents only one facet of reality. The pension industry must also be mindful of cultural aspects, argues Cok Vrooman, head of the Employment and Social Security Research Sector at the Netherlands Institute for Social Research (SCP).

Cok Vrooman

"MINDING THE BLIND SPOTS IN THE PENSION DEBATE"

"Everyone expects to eventually receive a pension," he contends. "That is what makes pensions different from unemployment and disability insurance. Moreover, there is no alternative to retiring. At some point, you will be unable to keep working." In other words, the importance of adequate retirement provisions cannot be underestimated. "We need to remember that for many people, the first and second pillars constitute a whole. Their income provisions are made up of social security (AOW) and a supplemental pension, so from the citizen's perspective, you cannot address one without addressing the other. In addition, for seniors on the margins of society, the lion's share of their income comes from social security," says Vrooman, who is also a professor of Social Security and Participation by special appointment at Utrecht University.

A Frightened Public

"In the policy debate, you encounter varying suppositions about how the public views pensions. Vocal citizens want to make their own retirement decisions and are capable of doing so. Rational citizens maximize their benefits across their entire life course and will therefore

make wise choices, as long as they are given the freedom to do so. Ignorant citizens are focused on the short term and lack the knowledge needed for rational retirement planning; they need to be paternalistically guided or coerced. Citizens with a strong sense of solidarity want the government to guarantee a reasonable income for the disadvantaged in their old age. Frightened citizens want certainty and have lost faith in the market and pension funds. The – often implicit – policy visions of the public tend to influence the solutions people choose in the pension debate," Vrooman points out.

The opposition between young and old receives too much emphasis, in his opinion. Research shows that while there are conflicts of interest, there is no age war being waged as a whole. Several obvious reasons lie behind this. "First, there is an implicit bond between generations," he continues. "Everyone was either young once or hopes to become old, and most people interact with other generations in their family. Second, there are many interconnections: older people who are well educated have more in common with well-educated young people than with poorly educated older people.

Third, the values young people have do not differ measurably from those held by older people. That was not necessarily the case in the nineteen sixties and seventies."

Old and young people are surprisingly unified, for instance, on a variety of pension issues. "Their answers on questions about freedom of choice do not diverge very much. If the decisions are left up to the people themselves, they generally choose greater certainty, such as additional insurance and low-risk investments. Neither the young nor the old are pushing for riskier investments, for instance," Vrooman says, based on the results of an SCP survey. Another thing they have in common is that both groups feel underrepresented in politics. "The difference between young and old is played up in the media, but in reality it does not play such a big role. In fact, the topic scored low on a list of urgent issues that we (at the SCP) recently compiled," he says.

High Earners

The fact that we have so little grasp of the relevant characteristics of groups of the population raises the question of how they should be defined in terms of pension and retirement – and also what blind spots might be lurking for participants in the pension debate. Those questions were playing through Vrooman's head as he examined the SCP data more closely. His work expands on existing research that divides the Dutch population according to four variables: social, economic, personal, and cultural capital. A healthy, well-educated high earner with a great deal of self-confidence, an extensive network, and a facile knowledge of cultural codes scores high. A poorly educated, low-income individual, who knows very few people, suffers from health problems, does not dress according to the prevailing norms, and lacks digital skills has very little capital.

Six Groups

The SCP identified six reasonably homogenous groups: the established elite (no young people, no minorities, generally men), younger contenders (often live in the metropolises, lots of liberal voters), the working middle class (gainfully employed, own their own home), well-off retirees (good income, reasonably luxurious lifestyle, homes often paid off), intermittently employed

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(few permanent jobs, low self-confidence, relatively high number of women), and those in a precarious position (little income, unemployed and surrounded by unemployed, unhealthy, poor language skills, and few digital skills). The working middle class, which does not include any older people, is the largest group. Over a quarter of the population falls into this category. The other groups are all fairly similar in size, with the percentages varying from 13% (younger contenders) to 17% (well-off retirees).

Each of these groups has a very different perspective of pension and retirement issues. Within the groups, divisions exist according to age. For example, vast differences emerge with regard to the questions of who benefits most in the current system and whose interests the politicians represent. "The contenders under the age of 35 think that the system favors older people and that politicians primarily advocate for that group," says Vrooman. "Those in a precarious position and the well-off retirees do not think that is the case."

Certainty

"When I pause to consider this diversity and realize that large groups of people value certainty, I wonder whether the proposed changes are headed in the right direction. The trend is toward individual retirement savings and shifting the risk to participants. Individuals are being called upon to take more matters into their own hands. People do not always want, or are not always able, to do that," Vrooman explains.

A more fundamental point, according to him, is that we might be building a system that is primarily adapted to the ideal citizen. "That would mean that only those who work without interruption, live healthy, execute smart family planning, and invest in the long term would receive an adequate pension," he points out. "That ideal citizen contributes sufficiently to the system's financial tenability and can for that reason lay claim to the collective solidarity. Anyone who lives carelessly, is incompetent, or has bad luck – such as people belonging to the intermittently employed or precarious groups – easily falls by the wayside. The challenge in changing the system is to weigh everybody's interests in a manner that does justice to all the population

groups. If the non-ideal citizens can no longer count on adequate old-age provisions, it could eventually undermine the legitimacy of the entire pension system."



Cok Vrooman

Hans Alders

"WE MUST FIRST SET SOME COMMON VALUES"

Pension discussions have become overly focused on specific problems.

Hans Alders thinks that is the wrong approach. "You cannot start thinking about change until all of the parties agree on the common values," he asserts.



Alders wears many hats. He was Queen's Commissioner for Groningen, has been on the board of PGGM since 2001, chaired the so-called Alders Roundtables at various airports, and last year became the Groningen National Coordinator. In these many social functions, Alders has dealt with opposing interests and the need to implement changes. "I see a lot of parallels between the discussions about noise pollution from Schiphol, for instance, and the debate about the future of the Dutch pension system," the former government minister says.

Many discussions about thorny issues start in the middle, according to Alders. "Groups identify a problem and want to immediately start working on a solution. The problem dominates the discussion. The technocrats jump in and propose complicated solutions to the problem. By that point, most of the people involved can no longer follow what is going on. They become alienated, which is detrimental to their overall level of trust," he explains.

That trust can then potentially turn into suspicion, in Alders's experience. "As soon as you say you are a pension manager, you are suspect," he says. Such mistrust is unjustified, he contends. "The pension industry was hit hard by the financial crisis. That meant promises could not be kept. It was a hard lesson to learn, but the industry did survive the crisis without government support. In that sense, you could say that the pension funds acted prudently enough."

According to Alders, the current approach in the pension debate will not produce solutions that have a broad base of support. "First, you all have to reach agreement on a number of social values. That does not mean that you will all be in agreement about everything else after that, but you can continue to refer back to those common values. That is the best approach anywhere – whether the issue is noise pollution, damages caused by natural gas drilling, or the pension system," he explains.

Airport

Alders points to the talks about noise pollution and the expansion of Schiphol Airport as a good example. "In that process, we started by talking about how important Schiphol was for the Dutch economy. Even the residents suffering from the noise pollution could see that Schiphol serves a valuable economic function and that the Netherlands benefits from having an international airport. In the search for solutions, you could then establish that major international flights were more important than flights to surrounding countries," he points out.

From that point, it was possible to move on to discussing the effects of the growth of Schiphol with the impacted parties and ways of limiting noise pollution. "Because all of the parties are in agreement about several of the basic principles, that discussion is more productive," Alders says. "There is also greater overall support for the solutions that arise from it. Such solutions are often complicated and will need to be further

worked out by the experts. I am by no means claiming that you do not need them, but they should only be brought into the process at a later stage."

Uniform Contributions

Alders is dismayed that almost all of the discussions about the pension system focus on the problems. "It is much more valuable and effective to first agree about the basic principles. During the National Pension Dialogue, it was not until the very end that the cabinet presented a memorandum that outlined the purpose and importance of a strong pension system. That was getting it backward," he laments.

The Labor Party (PvdA) member does not expect that it will be that difficult to find a common basis. "If we establish that pensions are a condition of employment and that, in fact, they represent a form of deferred wages, then we have already taken an important step forward. I think that most participants will acknowledge that a good pension system is beneficial for both the individual

participants and society as a whole. Workers accumulate a pension so that after retirement they can continue their lifestyle. The social relevance is that then most older citizens do not have to rely on social welfare," he sums up.

Another principle that many people value, according to Alders, is that the system prevent one generation from receiving an extravagant pension, while a later generation has to scrape by. "You want an even-handed system, without winning and losing generations," says the manager. "Many participants think that is an excellent basic principle."

In this respect, Alders warns about the risk of seeing pensions purely from an economic perspective. "There is a constant threat of market-value hawks assuming the upper hand in the debate. They see pensions, first and foremost, as a financial product. Anything that does not have a monetary value does not count," he explains. "If you have formulated values ahead of time, you can prevent that economic vision from dominating the debate, because you can then always point to your basic principles."

A good example of the kind of value that cannot be expressed in monetary terms is the aversion health-care workers have to investing in military companies. "Nurses and doctors hate the idea of their pension savings going to armaments manufacturers. That is not how they want to make a profit. For that group, that is an important value the pension fund takes into account," says Alders.

Citizen Involvement

A major difference between discussions about homes damaged by natural gas extraction in Groningen and the pension debate is the degree of citizen involvement. "When we organize an evening about natural gas earthquakes, the auditorium is full," Alders recalls from experience. Mobilizing pension fund participants is considerably more troublesome. "I know it is difficult to get participants involved, but that is not my starting assumption," he continues. "If you think like that, then it is easy to conclude, 'We might as well not bother involving the participants in the discussion, because it is impossible anyway.' Before you know it, you are only talking about participants and no longer with participants."

Alders believes it is possible to get participants involved despite the low level of interest. "PFZW managed to get 100,000 of its members to respond to an online survey," he points out. "You can also cast that in a negative light: millions of members failed to respond. I prefer to emphasize what was achieved. I value each and every input from a participant."

Market Value Hawks

Alders insists that the pension debate not be hijacked by technocrats and market value hawks. "The gist of the criticism of pension managers is that they think too much about their own interests. Moreover, they are supposedly oblivious to economic realities. I dispute that," he says. "They are perfectly well aware that you cannot always get what you want. Managers also realize that the system has to be adapted to economic and demographic realities. They do, however, want to be involved in that. If politicians or other outsiders tell them what to do, they will dig in their heels. You always know what you have, but not what you will get. You can prevent that impasse, too, by agreeing ahead of time to the major principles."

In an ideal world, as Alders sees it, the government would set up a framework within which the pension funds would be free to decide how to operate.

"Time, too, is an instrument. We tend to forget that," he says. "If the government blatantly calls for all of the funds to switch to a different scheme within the next few years, that is going to meet with opposition. The government could also let the funds choose their own transition schedule, within bounds. I am convinced that would be easier. You would have your front-runners, the first sheep to spring over the ditch, and then everyone else would follow."

Alders hopes the pension industry reaches consensus soon about the most important principles. "You cannot make a fist until you all agree. The pension dossier is going to play a critical role in the next government formation. The industry needs to be in agreement before then. Otherwise, others will decide what the system should look like," he says.

The pension industry has learned that without a broad base of support, reform efforts will run aground. Romke van der Veen, a professor of sociology at Erasmus University Rotterdam, outlines the issues the pension industry needs to take into account. It cannot permit itself a second failed attempt at change.

Romke van der Veen

"FRAGMENTATION IN SOCIETY HAMPERS PENSION REFORM"

Netspar has asked Van der Veen to critically examine the political and social developments that have an impact on system change. "Pension funds want to heed not just the technical aspects, but also the social context. At meetings and presentations, the managers are noticing a great deal of misunderstanding and discontent," he points out. Van der Veen is forming a Netspar project group together with Cok Vrooman, Paul de Beer, Lans Bovenberg, and pension experts from the industry to further investigate this topic.

The pension industry learned a hard lesson from the Pension Agreement concluded by unions and employers in 2011. The proposed changes to the system ran afoul of a divisive fight within the Dutch Trade Union Federation (FNV), among other problems. The agreement also foundered due to fears about the possible legal risks associated with converging the old acquired rights. "What happened back then shows, among other things, how important the framing of system change is. If large

groups of people see it as a worsening of their existing rights, you will quickly lose support," says Van der Veen, who has also studied the implementation of the new healthcare system.

Taking the Lead

On the face of it, the Netherlands has a good starting position for implementing fundamental change in its pension system. "Countries such as France and Italy have a much harder time changing their social security schemes, because there the politicians must take the lead. There is a big chance the trade unions will resist. In the Netherlands, we have a tradition of centralized negotiations between employers and employees. If they can agree with one another, politicians will generally adopt those proposals," Van der Veen says.

That is both the strength and the weakness of the Dutch consultative model. "One of the risks is that the social partners might sometimes have to give up acquired



Romke van der Veen

rights and therefore do not support reforms. The consequence can be that the state takes over. That kind of intervention by the state in the social negotiations is what occurred, for instance, when disability benefits were curtailed," he continues.

This has not happened yet with the pension dossier. The prospect does, however, hang like the sword of Damocles over the social partners' heads throughout the negotiation process. As things stand, though, it remains the social partners' move: the Dutch Social and Economic Council (SER) is finalizing its recommendations. "The political parties would also prefer to see the social partners work it out together," Van der Veen asserts. "The pension dossier is a troublesome one that can turn against you. Think back to the proposal by (then leader of the Labor Party) Wouter Bos to revise the taxation rules for social security: opponents dubbed it the 'Bos tax.' When it comes to modifying existing rights, political parties operate according to the principle of blame avoidance: how can I avoid being cast as the villain?" The preference for finding solutions through social dialogue is consistent with that.

An additional factor complicating matters is that older workers and retired people form an ever-growing share of the electorate. "That makes parties hesitant when it comes to pension cutbacks or overhauls. The topic is much less relevant for the smaller group of younger people. It is telling that we have a pensioners' party but not a young people's party," he muses.

Unpredictable

Pensions are highly complex; as a result, public opinion is variable. "There are so many different aspects that people can seize upon. One person wants freedom of choice, whereas another group thinks certainty is more important," Van der Veen says.

He thinks one thing the implementation of the new healthcare system in 2006 taught us is that acceptance is dictated, to a large extent, by perception. "You can view that healthcare system as the introduction of both greater solidarity and more freedom of choice. It provides for a basic level of insurance that is mandatory and available to everyone and covers 90 percent of treatments. In addition, people can choose their own

insurer. Nevertheless, the new healthcare system's introduction was viewed entirely differently. It was billed as a victory for the proponents of more market competition," he points out. That framing is highly dependent on the social context. "Look at the implementation of Obamacare in the U.S.," he continues. "Obama based it largely on the Dutch system. In America, however, it was not depicted as an enhancement of market forces, but as a 'socialist' inspired intervention."

According to Van der Veen, processes such as these demonstrate the wisdom of incorporating other voices and opinions besides those of experts into a discussion. "That realization has also dawned on the pension industry. That is why Netspar is giving greater consideration to social processes and the behavioral economics side of pension transitions," he says.

Fragmentation

Solidarity, a founding principle of the current system, is being jeopardized by social and political fragmentation. Van der Veen believes that solidarity continues to be vital to everyone's interests. "A pension system is based on a certain degree of solidarity, as expressed in shared risk," he points out. "That does not mean that solidarity is separate from self-interest. A certain level of solidarity is even prompted by self-interest. It is in everybody's interests for a country not to have too much poverty. Poverty is the wellspring of insecurity and criminality."

Van der Veen is afraid that finding a basis for solidarity will be no easy task. "It is more difficult in a fragmented society to find the support base needed for sweeping changes," he says. "Dutch society is much more splintered than it was, say, 25 years ago. That political 'three stream country' (ruled by a combination of liberals, socialists, and Christian democrats) no longer exists. Research from the SCP (Netherlands Institute for Social Research) shows that. The SCP identifies six categories of people whose needs are increasingly opposed, and the fault lines between those groups are hardening. Think of the oppositions between young and old, poorly versus well educated, or those with permanent employment and freelancers. Despite all those special interests, you have to find common ground for instituting reform."

The professor does not expect change to happen quickly. "I think it will look more like taking one step forward, two steps back. As long as the direction is clear for all of the parties, that is not necessarily such a problem," he says.

A pension system is based on a certain degree of solidarity, as expressed in shared risk.

STUDENTPROFILE

MERLE WILLEMSSEN

Merle Willemsen started her job at PGGM during her internship, which meant that she could immediately apply her thesis research on freedom of choice. Now she is doing a traineeship at PGGM.

What was your thesis research about?

Freedom of choice is hip, so I wanted to look into that. You see more and more differences between people and in their needs. You already have a limited number of options in the Netherlands, but no one makes much use of them yet. I found that interesting. Why was that? Why don't people use them?

My research was about that. On one hand, it was a factual approach, a data analysis. What are the options now; how are they used (or not)? After that, I started looking at why people do not avail themselves of those options. In addition, I looked at behavioral patterns. I compiled questionnaires and looked at the differences among groups of people. For example, differences in education levels, income, health, or working versus retired.

And... Do people want more freedom of choice?

People with a higher education take more advantage of the freedom of choice. That is because they know more about the options, but also because they have more financial room. Those with less education also want more freedom of choice, but that is not always possible yet. For example, the less-educated tend to prefer a

large, one-time payout at the beginning of their retirement period. Sick people also have that need, which is not that surprising.

And then you were offered a job at PGGM, besides your internship...

I was able to directly put my research into practice – to see what we could improve with that research, what we could do with the results. The fact that a company like that is also prepared to immediately do something worthwhile with your research, that is tremendously thrilling.

As part of my job, I have looked into such things as how we might better design communications and the selection process. Also at product options: what are the consumer's needs and how can we better serve them?

It is thrilling when a business immediately uses your research



Merle Willemsen

What did you think of the Netspar track?

Before I went into it, I did not expect I would like pensions and retirement so much. My thesis for my bachelor's degree was on health status and investment profiles. I studied life course and life cycle, their impact on your economic status. Pension and retirement affects so much. Social factors and economic factors come together here. The Netspar track reveals that combination very clearly. It prepares you well for the industry.

In 5 years' time...

As part of my traineeship, I have already gained experience in marketing intelligence and public affairs. My interests center primarily on data analysis, a mathematical approach, but also how you communicate that to the outside world. How do you translate those complexities for participants? I hope to pursue that further.

RECENTLY PUBLISHED PAPERS

On this page, we present a list of the papers recently published as part of the Netspar series on this magazines' theme. Netspar publishes both Industry Papers (which target practical matters) and Academic Papers. You can find a complete list of all Netspar papers, along with the PDF versions, on our website, www.netspar.nl.

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Soest, Arthur van

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Bart, Frits, Bart Boon, Bovenberg Lans, Casper van Ewijk, Niels Kortleve, Eugene Rebers and Michael Visser

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Colophon

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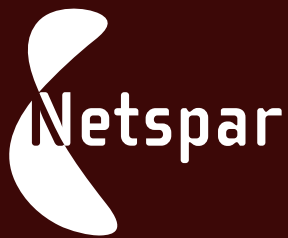
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Netspar, the Network for Studies on Pensions, Aging and Retirement, is a 'think tank' and knowledge network. Netspar is dedicated to promoting a wider understanding of the economic and social implications of pensions, aging and retirement. Expertise from scientific research is used to transfer knowledge through publications, events and education. With that, Netspar actively contributes to the social dialogue between policymakers, scientists and pension and insurance practitioners.

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