

Are NDC pension plans a useful alternative for the Netherlands?

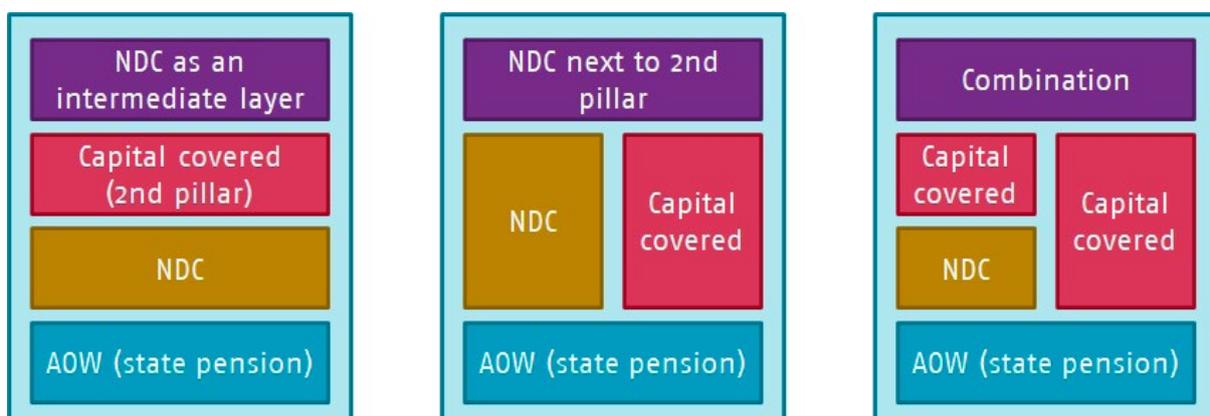
“Exploring options for strengthening pensions for everybody”

Casper van Ewijk, Lex Meijdam, Eduard Ponds – Tilburg University

Eroding participation in mandatory pension plans and the reduced scope of intergenerational risk sharing are two problems for which a non-financial defined contribution (NDC) system, also known as a notional DC scheme, can provide a solution. This paper explores the possible implementation of several variants of NDC’s. It also discusses other alternative solutions.

Principal Findings

- NDC appears to largely correspond to the occupational pensions in the second pillar as designed in the new contract, except for the important difference that it is funded on a pay-as-you-go versus a fully funded basis. Once the pension reform is enacted, two problems will remain: maintaining broad-based participation and providing better indexation. NDC pension plans offer a solution for both of these problems. In addition to NDC’s, other solutions are also discussed.
- NDC can be introduced as an additional layer between the state pension (AOW) and the second pillar or alongside the existing second pillar. A combination is also possible.
- Until NDC is fully implemented, additional instruments will be needed as well, such as strengthening the AOW, government guaranties for indexed pensions and auto enrollment.
- Increasing the AOW improves the position of low-income retirees but is detrimental for the labor market. That means it is essential to eventually incorporate the added AOW into the NDC system so that the right to extra AOW becomes related to employment.



Key Takeaways for the Industry

- NDC offers a comprehensive solution for greater pension coverage and more indexation.
- Ensuring a neutral impact across generations in implementing NDC will require long, gradual implementation.
- A combination of measures therefore seems the obvious choice in finding a workable solution.



Want to know more? Read the paper (only available in Dutch, with a summary in English) **'Are NDC pension plans a useful alternative for the Netherlands?'**