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# How the pension contribution system affects the labor market

"Progressive pension contributions may mitigate transition effects, but also adversely affect pension benefits and labor participation of older workers"

**Marike Knoef, Sander Muns and Arthur van Soest – LEI, Tilburg University**

**Most Dutch pension schemes currently require all participants to pay the same contribution percentage and ensure everyone has the same accrual percentage. Younger adults, however, have a much longer investment horizon. This means that each euro a younger adult invests will generally yield more pension than the euro of an older adult. The new pension contract ensures that pension contributions are not age-related and that accrual increases with age. Yet, there are certain issues associated with this transition process. One solution might be progressive pension contributions, meaning the contribution percentage increases with age. This study investigates the implications of progressive contributions for the labor market, based on the academic literature as well as on a survey held among employees.**

**Main findings**

Our analysis and survey uncovered the pros and cons of progressive pension contributions compared to non-age-related pension contributions:

| Pros | Cons |
| --- | --- |
| More money is available when starting out in a career, which can be used for such things as purchasing a home, school fees, and repaying student loans. | Progressive pension contributions usually mean a lower pension should be expected, depending on interest rates. |
| Progressive pension contributions that are coupled with pension accrual that is not based on age tie in with the current standard accrual system. This means employees will not need to be compensated when switching to the new system. | In all likelihood, employers will bear the main brunt of rising pension contributions for older adults. This will negatively impact older adults' labor market participation compared to younger adults. |
| In the transition phase to the new contract, employers will be allowed to employ both employees who are covered by the current progressive contribution system and employees who are covered by the non-age-related contribution system in the new contract. This means older employees with a progressive pension contribution are more at risk of being dismissed. This issue could be avoided if the new contract relied on progressive contributions instead. | Our research findings reveal that if wage expenses remain the same, employers prefer not to have progressive pension contributions. In essence, this means it makes very little difference whether an employer offers a defined contribution scheme or no scheme. This in turn means employers who are not legally obliged to offer a pension scheme may fail to do so or may only offer a very meager pension provision. |

**Main takeaway for the sector**

- The non-age-related pension contributions in the new pension contract will create some difficult issues in the transition period.
- Progressive pension contributions, however, would negatively impact pension levels as well as older adults' labor market participation.

**Want to find out more?**

Please read the paper **'How the pension contribution system affects the labor market'**