Network for Studies on Pensions, Aging and Retirement

Occupational pensions, macroprudential limits and the financial position of the self-employed

"Tighter borrowing restrictions in the mortgage market do not crowd out additional pension saving for self-employed"

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Tightened borrowing restrictions, such as lower macroprudential limits on the loan-to-value ratio or the debt-service-to-income ratio, make it relatively harder for many Dutch households to obtain a mortgage in recent years. We find no contradiction to the current policy aim of increasing pension saving of self-employed individuals. Whereas the self-employed are less likely to get a mortgage, and their borrowing is more sensitive to changes in restrictions compared to employees, in particular at the lower end of the income distribution, those self-employed that succeed to borrow tend to be older and wealthier, and they borrow more. However, the larger debt positions of the self-employed, before retirement, are associated with higher undiversifiable risk of a housing market downturn.

Principal Findings

- Macroprudential policies applied to the mortgage market, do not conflict with the aim to increase pension savings of Dutch self-employed.
- This is because self-employed workers with a mortgage are a selected group that starts participating in the credit market at older ages, if at all (see the Figure), and when they do, they take out larger debt amounts than employees.
- Income-poorer self-employed are particularly responsive to changes in macroprudential policies, and are more likely to be denied access to the housing market, but their retirement provision will be disproportionately covered by social security.
- Housing wealth is a relatively risky pension option as individuals are more exposed to asset price changes at the time when they wish to draw down their wealth entering retirement, in particular since the sale of the house is typically involved.
- Experiments with occupational pension participation of self-employed will not necessarily be affected by tighter borrowing limits.

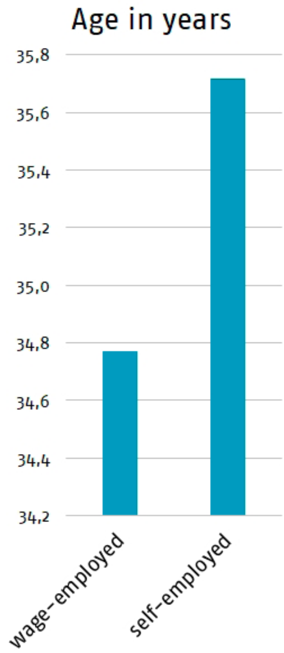

Figure: Age when signing current mortgage contract

Key Takeaways for the Industry

- Low-income, self-employed individuals would enjoy limited benefits from an occupational pension as social security (AOW) offers decent replacement rates for lower incomes.
- Middle- and high-income self-employed individuals could benefit from an occupational pension without incurring extra debt even if borrowing limits are prudentially set.

Want to know more? Read the paper **'Occupational pensions, macroprudential limits and the financial position of the self-employed'**