

Alternatives to Mandatory Participation

“Mandatory participation in a pension plan is a viable alternative”

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One of the strengths of the Dutch pension system is the mandatory participation by workers in an industry pension fund. However, questions are being raised about the form this currently takes, whereby all the employers and employees in a particular industry partake in the same pension plan with a mandated pension fund as provider. A study into possible alternatives reveals that by making the pension plan mandatory instead of the fund, the social partners’ freedom of contract can be respected, while preventing an increase in the number of employees either without a pension plan or with a poor one.

Principal Findings

- The researchers assessed possible options in relation to: a single mandatory requirement (only the pension plan) versus a double one (provider and pension plan); the implications for various types of plans; and feasibility and desirability.
- Each option has its pros and cons; there is no one-size-fits-all solution.
- In terms of the tenability of mandatory participation, requiring membership in some sort of pension plan is a viable alternative.
- Allowing employees or employers individual choice in provider seems undesirable, given their limited expertise and negotiating power. Moreover, some form of collective accommodation under a single provider is also preferable to save on administration costs.

	Bound to a Pension Plan	Bound to a Pension Provider
Contractual		
1	Individual agreement and individual freedom of contract. Choice/freedom of contract lies with employee or employer.	Choice/freedom of contract lies with employee or employer.
2	Collective agreement (such as a CLA). Bound through membership, collective freedom of contract for organizations + individual freedom of contract for non-members.	Choice lies with employer, individual agreement, freedom of contract for employer
3		Choice lies with collective bargainers (employees/employers). Bound through membership, collective freedom of contract for organizations.
Statutory		
4	Legally binding collective agreement. Collective freedom of contract, no individual freedom of contract	Choice lies with collective bargainers, with members legally bound to selected provider. Freedom of contract for organizations.
5	Laws (no freedom of contract)	Choice lies with legislators, formal law, no freedom of contract

Figure. Alternatives for being bound to a pension plan and/or pension provider based on the two underlying legal principles: contractual or statutory

Key message for the sector

- Some form of mandatory participation is needed to ensure that as many people as possible have a good pension plan. More research is needed to determine the best form for that.
- Concerns about the tenability of mandatory participation, as related to competition law, would no longer be an issue if it were the pension plan itself that was mandatory instead of the pension fund.



Want to know more? Read the paper (in Dutch)

'Alternatieven voor de huidige verplichtstelling van bedrijfstakpensioenfondsen'

(Alternatives to the Current System of Mandatory Participation in Industry Pension Funds)