Payment effects and cost-covering premiums in the new surviving dependants' pension

"New proposals will lead to additional DP income for low-income groups"

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If proposals in the new Future of Pensions Act (Wtp) are accepted, surviving dependants' pensions (DP) will radically change in the Netherlands. The diverse range of schemes currently on offer will be standardised, thereby improving transparency. This study considers the impact of the proposed changes on DP payments and cost-covering premiums and offers suggestions to mitigate the loss of pension capital if a former employee passes away before the retirement date.

Principal Findings

- As, unlike the current schemes, WTP offers a fraction of full salary , the DP income for low-income groups will be far higher than is currently the case.
- The level of the life-long DP benefit can be substantially affected by passing away just before or just after the legislative retirement date.
- Working with a bridging payment until the surviving dependant's retirement instead of a lifelong constant DP benefit reduces the cost-covering premium considerably.
- A uniform DP premium is high for a participant base with many male, older, full-time working participants with low incomes, high partner frequencies and young partners.

Key Takeaways for the Industry

Key points to be considered when implementing the Wtp proposals are:

- higher costs of a fiscal maximum DP;
- risk of assets accrued for surviving dependants' pension lapsing in the event of uninsured death;
- effects of a choice for voluntary continuation of DP after employment ends;
- differences in lifelong DP benefit that can occur in the event of death just before or after the retirement date.
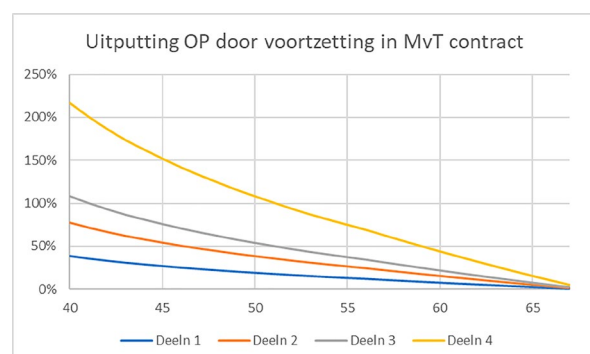

Figure: Reduction in surviving dependants' pension benefit by funding voluntary continuation from accrued pension assets.

Want to know more? Read the paper **'Uitkeringseffecten en kostendekkende premies in het nieuwe nabestaandenpensioen'** [in Dutch]