Dutch pension legislation reform

Current state of play Dutch market practice for new 100k pension cap

27 November 2015

Effective 1 January 2015
New Dutch Pension reform becomes effective

What does this mean?
Employee pension plans must comply with additional conditions for the premiums to be exempt from the levy of wage tax.
This particularly relates to the following:

- Normal retirement age increase **from 65 to 67** and maximum (annual) accrual rates decrease.
- Further reduction of maximum pension accrual rates and **pension accrual over salaries will be capped at EUR 100,000** (less the state pension discount, above €100,000 will no longer be tax exempt.)

  Maximum accrual percentage
  - Final pay plan - **1.657%** per year of service
  - Average salary plan- **1.875%** per year of service

Market practice for adopting the pension reform for company board members.

What have companies done so far?
It is expected that there will be some attention from the public on how company dealt with this new legislation and if the level and kind of compensation given for loss of benefits is justified and common. We have reviewed over 100 company disclosures (all listed and small number of non listed firms in the Netherlands) to understand what kind of measurement companies have taken so far to deal with this legislation and the way they disclosed this. We have found 29 companies who disclosed the measurements they have taken to address the reform for its board members.

Overview current state of play Dutch market

120 Company disclosures reviewed

29

29 Companies disclosed policy changes according to new pension regulations

Most frequently applied

1. Allowance
2. Collective Defined Contribution plan combined with allowance
3. Net Pension Plan
4. Temporary transition allowance towards new pension arrangement
5. Base salary increase

Least frequently applied

Pension disclosure examples

1. Allowance

"As from of January 1, 2015 members of the Board of Management receive a gross lump sum amount depending on their age to be paid out annually."

"Consequently, the Dutch Board members will receive a fixed gross allowance as of January 2015 equal to the associated pension contribution paid by the Company in 2014 for the base pay part above EUR 100,000"

"The Company makes an annual gross-up compensation payment of 19.8% of the difference between the old and the new maximum pensionable salary."

"The Company will make a gross payment of the difference in pension premium, payable in monthly installments, calculated over the fixed salary as at January 1, 2015 against the percentage that was applicable in 2014."

"All employees to whom this applies will now receive the employer's portion of the premium above € 100,000 (which was previously paid to the pension fund) in the form of a gross supplement of 16.35%."

Pension disclosure examples

2. Collective Defined Contribution plan combined with allowance

"The new arrangements for all Netherlands staff comprise a collective defined contribution (CDC) plan up to the new fiscal limit and a (taxable) cash pension savings allowance on pensionable fixed remuneration exceeding the fiscal limit."

"As of 1 January 2015, all members of the Executive Board are participating in the Collective Defined Contribution (CDC) pension scheme. Executive Board members are compensated for the resulting loss of pension accrual by means of a cash allowance to be annually determined in accordance with the CLA."

"The pension arrangements for the members of the Executive Board will be, with retroactive effect as per 1 January 2015, as follows:

- Up to €100,000 – a collective defined-contribution plan
- For the income above €100,000 an additional individual contribution of 25% of the member's fixed income above €100,000"

3. Net Pension Plan

"The intention is to compensate the members of the Board of Management by a non-tax deductible pension contribution, which allows building up pension out of net salary, such that the costs will be at a similar level as before. "

"However, starting in 2015, a portion of this contribution will be funded directly to the personal pension account of the statutory director as a tax exempt contribution and the balance will be paid to the statutory director as a taxable pension allowance which can be used by the statutory director to build up his net pension on a voluntary basis."

Pension disclosure examples

4. Temporary transition allowance towards new pension arrangement

"Structural annual compensation of 19% of the gross base salary above the maximum salary of €100,000 (maximum 2015) and a temporary allowance of 5% (decreasing with 20% per year for the next 5 years) to enable the Board of Management to arrange for their own pension provision for the salary exceeding €100,000."

"For a maximum period of 8 years (first 5 years in full; year 6: 75%;year 7: 50%; year 8: 25%) a gross Transition Allowance will be paid to those members who were eligible to it under the former pension arrangement and will be based on the age and salary of the Executive on December 31, 2014."

5. Base salary increase

"For 2015, gross annual salary will be increased by €48,000 to €358,000 (2014: €310,000) to compensate for the lower pension accrual, as a consequence of the maximized pensionable salary being lowered to €100,000 per annum.

"This decrease in pensionable income will be compensated by an adjustment of gross annual salary."

DirectorInsight

Company profile

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