

REVISION

**VALUE TRANSFER OF PENSION RIGHTS
IN THE NETHERLANDS**

June 2004 – publication no. 8A/04

Value transfer of pension rights in the Netherlands

1. Introduction

The opportunity to transfer pension rights when changing jobs, or what is termed ‘value transfer’, is a special feature of the ‘second pillar’ in the Dutch ‘three-pillar’ pensions system.

This brochure explains some details of Value Transfer as such: its purpose and specific features, its advantages and disadvantages, the decision making procedure and costs.

2. The Dutch pensions system

Given its direct relevance in this context, we must first explain the Dutch pensions system in general. Taking retirement pensions as an example, the system divides into three separate pillars as follows:

- The first pillar is the state retirement pension or ‘AOW’, based on statutory national insurance. This provides all inhabitants of the Netherlands with a standard retirement pension at level linked to the statutory minimum wage. It is financed on a cost-allocation basis, which means no pension fund is formed as such. Pensions are financed directly from national insurance contributions paid by the non-retired populace.
- The second pillar is made up of non-statutory company pension schemes that are supplementary to state pensions. Supplementary pensions in the second pillar are an integral element of (collective) bargained wage agreements, and are financed on a capital funding basis. Employees save for their own pension through their own contributions (and those of their employer). Second pillar schemes are administered by pension funds and life insurers, who underwrite the pension payouts pledged by employers.
- The third pillar comprises private pension plans, unrelated to statutory regulations or (collective) bargained wage agreements.

Second pillar pension provisions can be highly diverse. Up to the 1990s, most schemes were designed to provide a retirement pension equivalent (inclusive of the state pension) to 70% of final pay after 40 years’ participation in the scheme (final pay scheme). Since that time there has been a shift towards a reference pension level equivalent to average pay over the period of employment (average pay system). An increasing number of schemes are also switching from pay-based pension levels to pensions funded entirely by actual contributions paid by employer and employee (available premium system). Many pension schemes are currently based on a variant or a combination of these two main forms. Final pay and average pay systems often make allowance in some way for the state retirement pension when assessing reference levels for supplementary pensions.

3. Value transfer in the Netherlands

In the Netherlands the right to transfer accrued pension rights in the second pillar to another fund with a new employer when changing jobs has been laid down by law since mid-1994. Given that second pillar schemes are financed on a capital funding basis, that means in concrete terms that the

actual accrued cash value of pension entitlements is transferred. This value is then translated into pension entitlements under the terms of the new pension scheme. The system is described as value transfer.

Before becoming a legal right, value transfer had been possible on a voluntary basis, either by mutual agreement between employers and/or pension funds, or through value transfer circuits set up for that specific purpose.

Purpose of value transfer

Value transfer is designed to prevent or limit any loss of pension rights due to a change of pension scheme when switching to a new job.

Such forfeiture of pension rights (hereafter termed simply pension loss) occurs specifically when the pension scheme of the earlier employer is a final pay scheme. In final pay schemes the salary increments on which pension entitlements are assessed are calculated over all past years of employment¹. In average pay or available premium schemes, by contrast, pay increases count only towards future pensionable years. If an employee leaves a final pay scheme, no account is taken of his years of service with the earlier employer when calculating his pension entitlement in a new scheme, thus creating a pension gap. That is the most significant form of pension loss.

Nowadays the accrued pension rights of an employee who loses his job are usually index-linked in one way or another, thus mitigating any loss of pension. The examples below illustrate that in greater detail. Withdrawing from an average pay or available premium scheme only creates a pension gap if the accrued pension entitlements are no longer index-linked after the date of withdrawal, or at a lower ratio than in the active period. In practice this is very rarely the case, and transferring to a different pension scheme on changing jobs does not generally create a pension gap.

Value transfer

Value transfer means that pension rights accrued at the time of dismissal are transferred to the pension scheme of the subsequent employer.

If the new pension scheme is a final pay scheme, these rights have a number of (extra) pensionable years attached. The number of years is assessed by relating the accrued retirement pension entitlement to the retirement pension allocated on one year of pension accrual in the new pension scheme at the date of transition.

When the pension schemes are precisely similar and the pay level is unchanged in the new job, the employee will be allocated the same number of (past) pensionable years in the new scheme as he or she in fact had under the previous scheme at the time of changing jobs.

[footnote 1]

Pensionable years is understood to mean years of service, in so far as these are taken account of in calculating pension levels. The usual limit is 40 years.

Pensionable years allocated through value transfer are taken into account in the assessment of pension levels. Loss of pension in the sense referred to above is thus at its lowest when the value is transferred to a final pay pension scheme with regular allocation of back-service increases. In such schemes pay increases count towards the pension over all the participant's pensionable years, thus compensating wholly or partially for any pension gap occurring as a result of changing jobs.

In the case of a move to a different type of pension scheme, value transfer does not give rise to extra pensionable years. However accrued pension rights are usually adjusted periodically (in line with wages or prices or otherwise).

If the earlier pension scheme was a final pay scheme, the pension gap occurring on changing jobs is only (partially) offset if the adjustment policy in the new pension scheme is more beneficial than in the previous scheme.

If the earlier scheme was an average pay or available premium scheme, the main ² purpose of value transfer is to centralize pension rights accrued in the past with one sole pension administrator (and specifically in the form of the most recent pension scheme). This precludes fragmentation and makes the individual's pension position more transparent. This can be illustrated diagrammatically as follows ³:

From	To	Pension gap	Result value transfer (in principle)
Final pay	Final pay	Yes	Positive, but closure of pension gap dependent amongst other things on salary trend viz-a-viz indexation in the old pension scheme.
Final pay	Average pay / available premium	Yes	Negative, as a pension gap will in principle remain as a result of leaving a final pay scheme. However the transfer will not be disadvantageous to the employee if the old and the new schemes have the same degree of indexation.
Average pay / Available premium	Final pay	No	Positive, as no pension gap is created, but the impact does depend on salary trend viz-a-viz degree of indexation in the earlier scheme.
Average pay / Available premium	Average pay / Available premium	No	Neutral, if earlier and new pension schemes have the same degree of indexation.

[footnotes 2 and 3]

² Still another consideration could be the capital adequacy of the previous and/or the new pension administrator

³ This is a broad overview. The extent to which value transfer has a positive impact on precluding pension loss depends on individual circumstances, whereby in addition to the type, substance and level of the pension schemes concerned, other relevant factors are changes in the salary/pension principles at the time of switching and the relative degrees of indexation in the previous and the new pension scheme.

Given the large variety of pension schemes, the personal circumstances of the participant and uncertainty about future developments, it can never be established with certainty beforehand whether or not value transfer will eventually prove favourable to the individual concerned.

The value transfer process: the financial factor

A standard method has been adopted for assessing the transferable value of pension rights and its translation into entitlements under the new pension scheme. This regulates the transfer process and forestalls unintended side effects (such as pension loss stemming from administrators applying differing principles on fees and allocations to reserves).

The same rules and principles apply both for the assessment of transferable values and their translation into entitlements under the new scheme.

If the old and new pension schemes are identical, value transfer will result in pension rights precisely identical to entitlements under the old pension scheme.

In practice the (standardised) transferable value will seldom be precisely equal to the value available to the pension administrator releasing it (usually the accrued provision for pension liabilities). This is a consequence of the difference between the principles for allocations to reserves and the principles applying to transferable value assessment.

That difference will work either to the credit or debit of the releasing party (that is to say the previous pension fund or, in the case of directly insured schemes, the previous employer), depending upon whether the transferable value is lower or higher than the available value.

For the same reason the amount required by the new pension administrator to purchase the pension rights stemming from the transfer will seldom be precisely equal to the transferred value. Here the difference will work either to the credit or debit of the recipient party (that is to say the new pension fund or, in the case of directly insured schemes, the new employer), depending upon whether the transferable value is higher or lower than the purchase sum.

Given that there are generally both departing and new participants in one and the same pension fund, these differences offset each other to some extent. This is specifically true of pension schemes with large memberships. For medium sized and small companies unaffiliated to an industry-wide pension fund, and for smaller pension funds, value transfers will almost certainly have either a positive or negative net impact on pension costs.

The effects of this part of the value transfer process are presented diagrammatically in appendix 2.

The value transfer process: procedure

Effecting a value transfer requires some considerable effort on the part of all parties involved:

- the employee must take action;
- information must be provided by pension administrators;
- experts must provide advice;
- a choice must be made by the employee (and possibly also his or her partner);
- the transferable value must be determined and the amount transferred to the new pension administrator;
- the value must be translated into entitlements under the new pension scheme, and in the case of a final pay scheme, the relevant number of pensionable years calculated;
- the outcomes must be entered in the accounts and relevant information again passed to the employee.

A whole process, in other words, taking up the necessary period of time.

In order to ensure that employees take action and that the process is completed within a reasonable space of time, the various stages of the process are subject to time limits.

Appendix 3 gives an overview of the procedure and the relevant time limits.

4. Costs of value transfer

Preventing a loss of pension costs money! Value transfer is intended after all to result on balance in higher pension entitlements. It is impossible to predict the amounts involved beforehand. They depend on the extent of the pension loss and the degree to which that is redressed. Another relevant factor is that in many cases an outgoing value transfer results in a saving if there is no requirement for the associated pension entitlements to be index-linked. The costs of redressing the pension loss are borne by the new pension fund (the employers and pension scheme participants involved) or, in the case of a directly insured pension scheme, by the new employer. New and expanding companies are thus the chief financiers.

As already indicated, differences between available value, transferable value and purchase value are factors that can give rise to additional income or expenditure on the part of the pension fund or employer, particularly in the case of medium sized and smaller companies

Finally there are the costs of administering the whole process, the communication, the assessment, the consultation, the actual transfer of money and the input of the transferred value into the new pension scheme.

Value transfer involves the necessary (administrative) exertions and can readily cost several hundred euro for each individual case. These costs are borne in the first instance by the pension administrators and are set off against the contributions due from employers and employees. Conversely, value transfer also means the previous pension administrator has fewer pension entitlements to account for, and thus saves on IT, accounting and communication costs.

5. Information provision

As already pointed out, in light of the wide variety of pension schemes and the personal circumstances of individual employees, as well as uncertainties on future pay trends, indexation and adjustments to pension scheme provisions, it is impossible to predict whether or not a value transfer will work out in favour of the person concerned. And even in terms of the standardised form, value transfer remains a complex subject.

Employees wishing to transfer their pension rights to a new pension scheme have a difficult choice to make. They require good information and support. The Joint Industrial Labour Council has produced an informative folder and a decision guide based on the main provisions of pension schemes.

This documentation is included in appendix 4.

6. Summary

The significance of value transfer as a method of combating pension loss attaches primarily to final pay (or similar) schemes, where pay increases lead to higher pension entitlements over past pensionable years. If an employee switches jobs, his or her previously accrued pension rights will no longer qualify for adjustment in line with the individual's future pay trend. This results in a pension gap. That pension gap reflects the difference between the pension the employee would have received over past pensionable years if he or she had not changed jobs and the (lower) pension he or she is entitled to over these years after withdrawing from the scheme. The pension gap represents the pension loss due to switching pension schemes when changing jobs. Value transfer helps to offset the pension gap in whole or in part.

In the case of average pay and available premium schemes, no pension gap occurs as a result of changing jobs, and there is thus no loss of pension. In these circumstances value transfer helps clarify the individual's pension position by consolidating pension rights as much as possible in one sole pension scheme.

Whether or not value transfer will also lead to a better pension in that situation often depends on (possibly unreliable) comparisons between different forms of indexation.

Most Dutch pension schemes currently provide for index-linked rights on dismissal and indexation of pension payouts in one way or another. That means the problem is less serious on the one hand, as it makes for a smaller pension gap. But it does not make it any easier for employees to decide whether or not to transfer their pension rights to a new pension scheme. This effect is amplified by the current trend towards dropping final pay schemes in favour of average pay and available premium schemes. It is moreover increasingly uncertain whether pension schemes will adhere to their existing indexation policies. Good information is thus crucially important. That is an area where improvement is still needed.

Examples of the impact of value transfer as a measure for offsetting pension loss through changing jobs

I. What do we mean by pension loss?

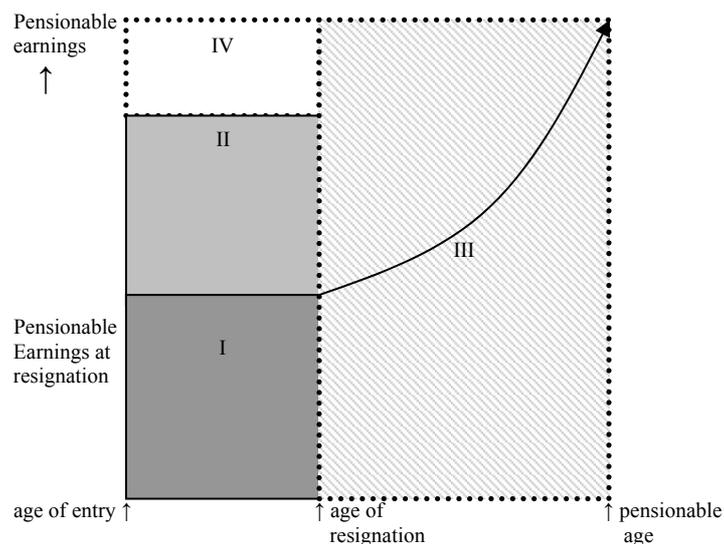
People who withdraw from a pension scheme on moving to a new job are allocated a paid-up pension entitlement based on the number of pensionable years they have accrued in the previous scheme. Such entitlements will usually be periodically adjusted, for example in line with a wage or price index. Adjustment is in most cases conditional on the financial resources being available.

Switching jobs can mean pension benefits will eventually fall short of the amount that would have been due on the basis of continued service with the previous employer.

Such shortfalls can be due to:

- Lower accrued pension entitlements over the years remaining up to pensionable age (there is no new pension scheme, the new pension scheme is less generous, or pay does not rise at the same rate in the new job);
- Lagging subsequent accrual on previously accumulated pension rights (due either to a lack of indexation or lower indexation than would be required on grounds of the individual's pay trend)..

This can be presented in diagram as follows::



I	=	Allocated pension entitlement at resignation on a time-weighted basis.
II + IV	=	Forecast subsequent pension accumulation over pensionable years in the old scheme if the employee had stayed with the previous employer. This amount is in fact impossible to establish.
II	=	Forecast subsequent pension accrual I in the old pension scheme through bonuses/ indexation (can be 0).
IV	=	Forecast pension shortfall due to change of job (= II+IV-II)
III	=	Potential pension shortfall relating to the period after resignation assuming no participation in new pension scheme.
I + IV	=	Total forecast pension if employee had stayed with the old employer.

The factor b) above (field IV in the diagram) is the only factor relevant to value transfer as a measure for limiting pension shortfall, if we ignore any divergence in pay rate trends due to changing jobs. Carrying over pension entitlements by means of value transfer entails that these entitlements, after translation into the provisions of the new pension scheme, will subsequently be treated as if they had been accumulated in the new scheme.

In the case of final pay schemes this involves translation into extra back-service years which count towards pension increases assessed on the basis of a pay increase.

For average pay and available premium schemes, treatment remains the same as for past accrued entitlements (thus usually adjustment to a specified index).

Value transfer can only have an impact if there is an applicable pension scheme in the new job, and if that scheme provides for adjustment of pension entitlements accrued over past pensionable years.

It should be noted that it is not always possible to establish in advance whether value transfer will indeed have the envisaged impact, because it is often a matter of assessing the difference between two different methods of adjustment (indexation in the old pension scheme and indexation policy in the new scheme). There are in fact only two situations where we can be certain in advance that value transfer will help to offset pension shortfall.

- Pension rights are frozen after resignation.
- The new scheme is a final pay scheme, the employee has an income still well below any maximum applying in assessing the pension level or there is no applicable maximum and the employee still envisages some further career advancement.

II The effect of value transfer, presented in diagram

In value transfers the value of the allocated pension entitlements at resignation is assessed on the basis of standard assumptions (discount rate, mortality tables etc.).

No allowance is made for conditional indexation of entitlements.

This transfer value is paid by the releasing pension administrator to the new pension administrator. It is then translated on the basis of the same assumptions into pension entitlements under the new pension scheme. Under current regulations this still involves a number of notional factors designed to ensure that retirement pensions remain as far as possible intact. Proposals have meanwhile been advanced to abolish these factors so that the value and the assessment principles are the only determinants for calculating pension entitlements stemming directly from transfers. Different types of pension scheme, differing relationships between the same types of pension and a differing pensionable ages are factors making for divergence between the old and new pension entitlements.

In the case of final pay schemes a number of years are allocated to the new pension scheme as counting towards subsequent pension assessments. This number is generally defined as the new retirement pension entitlement stemming from the transfer, divided by the retirement pension entitlement per subsequent pensionable year, assessed on the basis of the situation at the time of entry to the pension scheme. The transferred pension entitlement is then wholly incorporated into the new pension scheme.

If the two pension schemes are identical (that is to say the old pension scheme was also a final pay scheme) and the pay level at resignation coincides with the entry pay level in the new scheme, then the number of pensionable years stemming from the transfer coincides with the number of pensionable years accumulated in the old scheme. A different earnings level in a new job however yields a different number of years (higher pay results in fewer extra pensionable years in the new scheme).

Different types of pension scheme, differing relationships between the same types of pension scheme and a differing pensionable ages will clearly also lead to diverging numbers of pensionable years stemming from value transfers.

It is then unsurprising that the current multifarious assortment of pension schemes is not much help to employees trying to decide whether or not to request a value transfer.

The foregoing points are illustrated in the following examples.

Example 1: transition to an identical pension scheme with unchanged pensionable earnings

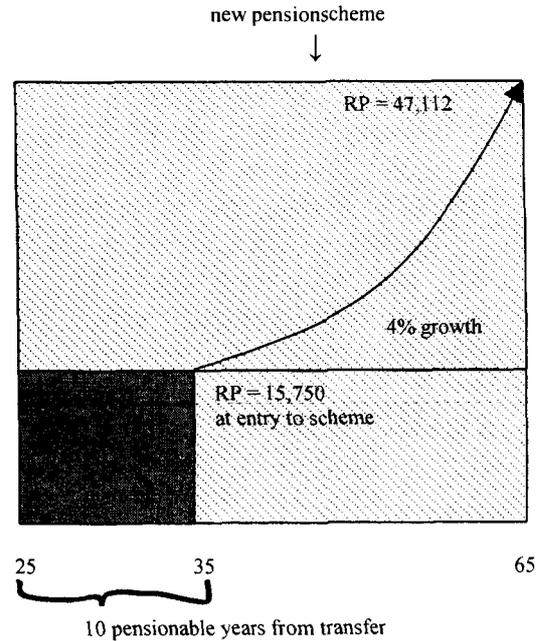
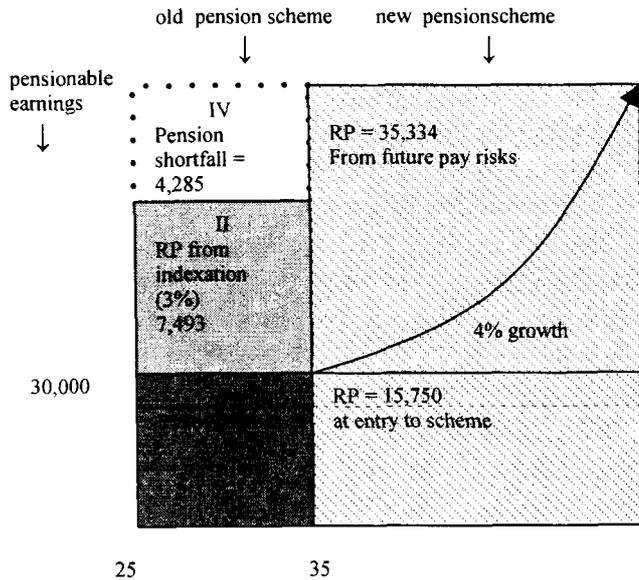
This example demonstrates what happens when an employee transfers to an identical pension scheme (in this case a final pay scheme). This situation is illustrated in the following diagram..

diagram1.1: without value transfer

diagram1.2: with value transfer, without a pay rise on transition

diagram1.1: without value transfer

diagram1.2: with value transfer



Total RP = 63,827 of which
 . 51,084 from the new scheme
 . 12,743 from the old scheme

Total RP = 68,112 of which
 . 68,112 from the new scheme
 . 0 from the old scheme

The forecast pension shortfall of 4,285 based on no value transfer taking place, is wholly offset by taking account of the extra back-service years when assessing the pension.

1) RP = retirement pension

- The new and old pension schemes are identical, with 65 as the pensionable age, an accumulation rate of 1.75% for a maximum 40 pensionable years and an RP to DP ¹⁾ ratio of 100/70.
- The employee has resigned at the age of 35 and transferred immediately to a new job and joined the pension scheme.
Pensionable earnings ²⁾ at resignation were 30,000.
- Pension entitlements at resignation amount to 5250 RP and 3675 DP (field I in the diagram. Only RP is entered there).
The annual rate of indexation on these pension entitlements is expected to average 3%.
Additional RP stemming from indexation is thus forecast to amount to 7493 at age 65 (field II).
If pensionable earnings were expected to rise 4% on average, the result stemming from the 10 pensionable years up to age 35 would be an RP amounting to 17.5% (1.75% x 10 pensionable years) of 97,302 (pensionable earnings at age 35 of 30,000 x 1.04¹⁰) = 17,028.
Resignation from employment therefore leads to a forecast pension shortfall on retirement of 17,028 – 5250 – 7493 = 4285 (field IV)
- On entry to the new pension scheme the prospective RP amounts to 52.5% (1.75% x 30 pensionable years) of the applicable pensionable earnings of 30,000 = 15,750. The related DP is 70% of that amount or 11,025.
In this situation the RP entitlement carried over on resignation and the prospective RP in the new scheme still add up to 21,000 (=5250 + 15,750) or 70% of pensionable earnings and is thus unchanged by comparison with the situation previous to resignation.
The DP entitlement is similarly unchanged.
- Adding in the accrued pension entitlement via value transfer produces no change in this situation. Expressing the back-service entitlement as a cash value and then translating that value into pension entitlement under the provisions of the new scheme leaves the pension rights as such intact. The pension schemes are identical. Thus the value transfer produces an additional pension entitlement under the new scheme of 5250 RP and 3675 DP.
- The RP stemming from the value transfer is equivalent to 10 additional pensionable years. A pensionable year under the new scheme is equivalent to 1.75% of 30,000 = 525 RP. An amount of 5250 RP is available from the value transfer, or in terms of years: 5250:525 = 10.
These years thus count towards future pension accrual.
- Suppose that pensionable earnings rise in the first year of the new job by 5% or 0.05 x 30,000 = 1500.
The RP then rises by 1.75% x (30 regular + 10 extra pensionable years) x 1500 = 1050.
The RP is thus 15,750 + 5250 + 1050 = 22,500 or 70% van 31,500.
The value transfer has thus had the effect that an entitlement of 1.75% x 10 x 1500 = 262.50 RP is still allocated over the years spent with the previous employer. In this example a little more than would have resulted if no value transfer had taken place. Pension entitlements would then subsequently have been index-lined at a rate of 3%, which would have produced an extra pension entitlement of 3% of 5250 = 157.50 RP.
The same calculation applies for DP, but then x 70%.

¹ RP = retirement pension, DP = dependants' pension

² Pensionable earnings is income taken account of for pension assessment. Often salary after deduction of an allowance for benefits under the state retirement pension scheme AOW.

- Suppose the employee subsequently stays in the same job and is awarded pay increases at an average rate of 4%, he or she would eventually receive the same amount as if they had remained with the previous employer. The pension gap occurring on switching jobs due to the lower prospective pension in the absence of a value transfer is then completely eliminated.

However it is impossible to know in advance whether a value transfer will eventually make anyone better off unless, as already noted, the pension entitlements stemming from the previous pension scheme were never adjusted in subsequent years, or if the person in question still envisages further substantial career advancement in the new job with an equivalent pension scheme.

Example 2: transition to an identical pension scheme accompanied by a jump in salary

The starting point here is the same as in example 1.

The difference compared to example 1 is that the employee has pensionable earnings of 40,000 instead of 30,000 on entering the new scheme..

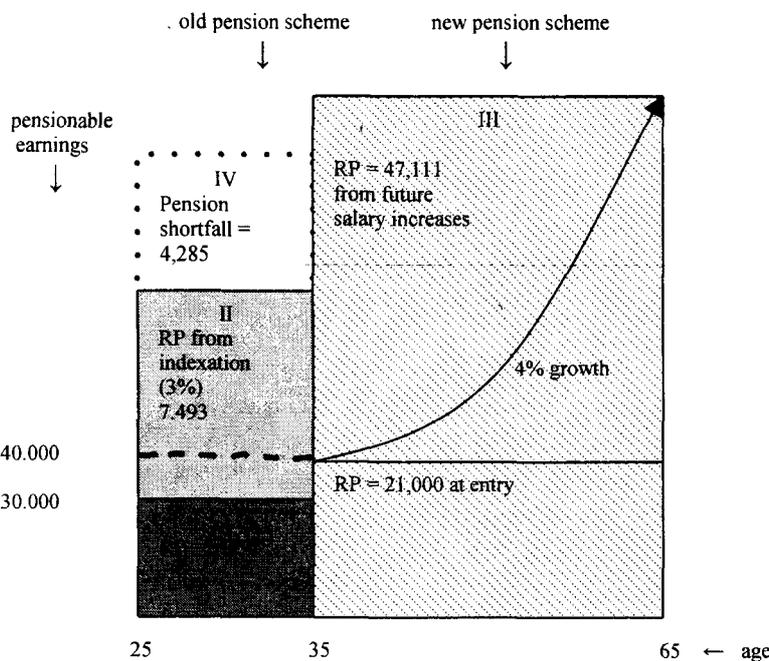
He or she has moved to a substantially higher salary on switching to the new job.

As a result, the employee is allocated a higher pension per prospective pensionable year under the new pension scheme, and consequently a lower number of additional pensionable years stemming from the value transfer.

diagram 2.1: without value transfer

diagram 2.2: with value transfer, and a jump in salary on transition

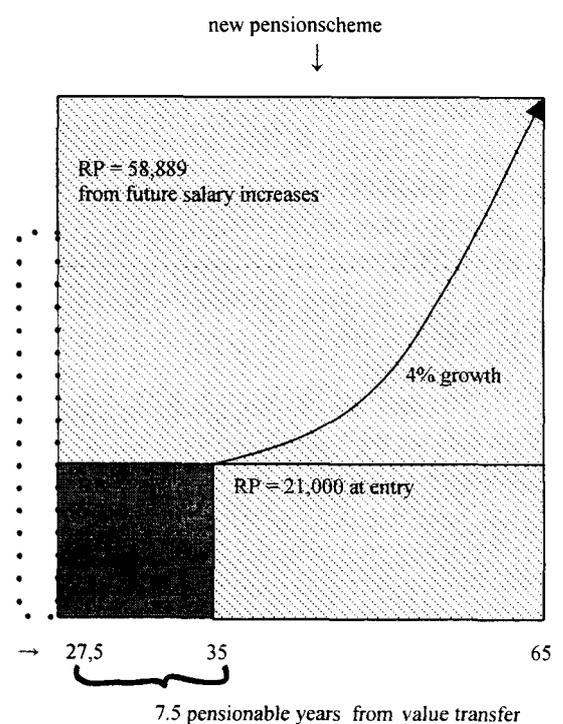
diagram 2.1 without value transfer



Total RP = 80,854, of which
 - 68,111 from new scheme
 - 12,743 from old scheme

Compared with full final pay the pension shortfall has risen as a result of the salary increase.

diagram 2.2 with value transfer



Total RP = 85,139, of which
 - 85,139 from new scheme
 - 0 from old scheme

The value transfer has completely offset the expected pension shortfall of 4,285 that would occur if no value transfer takes place
 (85,139 = 80,854 + 4,285).

- The prospective RP at initial entry to the new pension scheme amounts to $1.75\% \times 30$ pensionable years $\times 40,000 = 21,000$. The related DP is 70% of that amount, or 14,700. The effect of the value transfer is an additional entitlement of 5250 RP and 3675 DP. These amounts coincide with the amounts in example 1 because the new pension scheme in example 2 is identical to that in example 1.

The overall prospective pension is thus 26,250 ($= 21,000 + 5250$) RP and 18,375 ($= 14,700 + 3675$) DP.

The additional pension entitlement compared with example 1 here relates only to the entitlement stemming from the higher pensionable earnings, that is in the case of RP $1.75\% \times 30$ pensionable years $\times (40,000 - 30,000) = 10,000 = 5250$, and in the case of DP 70% of that amount, or 3675.

The fact that these amounts coincide with the entitlements stemming from the value transfer is only a consequence of the choice of new pensionable earnings.
- The RP stemming from the value transfer is now equivalent to 7.5 instead of 10 extra pensionable years. A pensionable year under the new scheme is equivalent to 1.75% of $40,000 = 700$ RP. This results in an RP stemming from the value transfer of $5250 = 7.5 \times 700$. The higher amount in pensionable earnings at entry thus produces a lower number of extra pensionable years. Based on the salary increase the total number of pensionable years taken into account for the purposes of pension assessment now becomes $30 + 7.5 = 37.5$.
- However the lower number of years has no disadvantageous effect on the subsequent accrual of the transferred pension. If the pensionable earnings show the same average growth up to pensionable age, the employee is allocated the same additional pension over these 7.5 additional pensionable years as in example 1.

In example 1 an increase in pensionable earnings in the initial year in the new pension scheme produced an additional entitlement over the 10 extra years amounting to 262.50 RP. In this example a 5% increase in pensionable earnings in absolute terms is equivalent to 5% of $40,000 = 2000$. The additional RP over the extra years then amounts to $1.75\% \times 7.5$ pensionable years $\times 2000 = 262.50$. The reason is that although the number of extra years has been reduced the nominal pension entitlement is unchanged. And an increase in pensionable earnings of $x\%$ only means that the pension entitlement stemming from the value transfer also rises by $x\%$ (at least in this example which is based on the new scheme being a final pay scheme). And 5% of $5250 = 262.50$.

Example 3: transition from a final pay scheme to an (index-linked) average pay scheme with unchanged pensionable earnings.

This example is based on transition from a final pay scheme to an indexed average pay scheme. This last scheme is in principle the same as a final pay scheme, but prospective pay increases work through to the pension over future years of participation until pensionable age. Pension entitlements stemming from past years of participation in the scheme are adjusted on the basis of price or wages indices, conditional on sufficient financial resources being available.

The example is based on the assumption that the indexation system in the final pay scheme for pension entitlements carried over after resignation and existing pension payments is identical to indexation policy in the average pay scheme.

This means in fact that back-service pension entitlements have neither a beneficial nor an adverse effect.

diagram 3.1: without value transfer

diagram 3.2: with value transfer, without a pay rise on transition

diagram 3.1 without value transfer

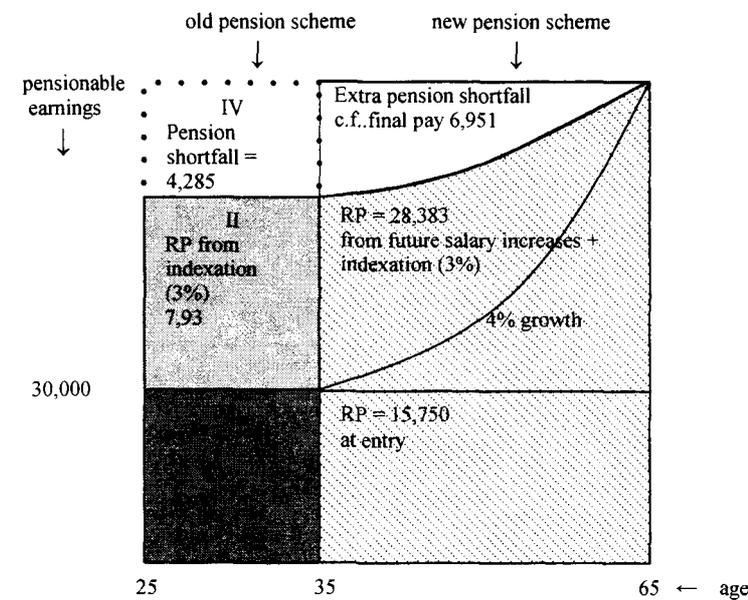
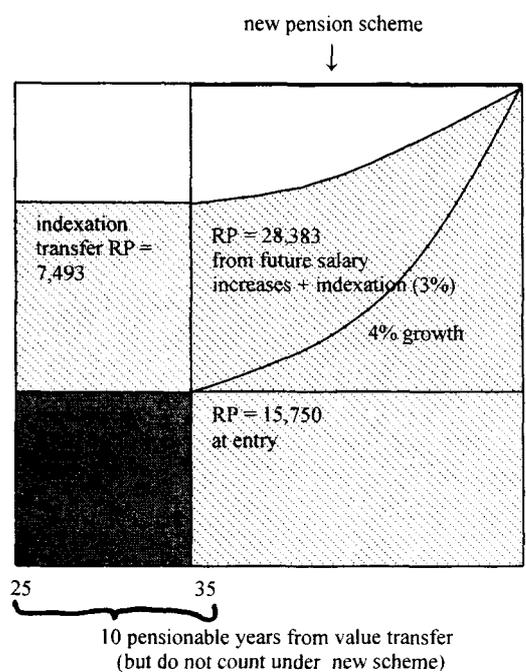


diagram 3.2 with value transfer



Total RP = 56,876, of which
 . 44,133 from new scheme
 . 12,743 from old scheme

Due to an indexation rate lagging wage trends, transition to the index-lined average pay scheme in this example produces an additional pension shortfall of 6,951.

Total RP = 56,876, of which
 . 56,876 from new scheme
 . 0 from old scheme

Not different from situation without value transfer based on identical indexation criteria.
 If indexation in the new pension scheme had been based on (the individual's) pay trend then the end result would have been the same as in diagram 1.2.

- Based on the calculation in the example, resignation at age 35 results in an expected pension shortfall of 4285 over the past period of participation, that is to say, the difference between the pension that would have been awarded over that period on grounds of the expected rate of pay increase (4%) exceeding the prospective indexation rate for the back-service entitlement (3%).
- Transferring the back-service pension entitlement nevertheless results in the same entitlement under the new pension scheme (no change in pensionable earnings) and thus to 10 additional pensionable years. However these years have no significance in an average pay scheme because pay increases then only work through towards the future. The paid-up entitlement of 5250 RP and 3675 DP stemming from the value transfer is adjusted annually on the basis of the applicable indexation system, thus in this case by 3% per year. This means the expected pension shortfall stemming from the value transfer in this situation is not entirely or in other words is only partially eliminated. If the indexation rate in the new pension scheme is lower, the employee would even be worse off as a result of the value transfer.
- If on the same assumptions the salary and pensionable earnings rise at the same rate in the new pension scheme as they did in the old, then the employee is by definition less well-off because pension entitlements accrue at a slower rate in an index-linked average pay scheme than in a final pay scheme. In this example, the difference in pension for the initial year in the new scheme is already 1% (= 4% - 3%) of the pension entitlement accumulated over that year of 525 (=1.75% of 30,000), or 5.25.

Example 4: transition from an (index –linked) average pay scheme to a final pay scheme with unchanged pensionable earnings

In this example the old pension scheme is an index-lined accrual scheme.

There is thus no question of a pension shortfall (that is to say on condition the pension entitlements of active participants are index-linked on the same basis as those of early leavers and pension recipients.).

The employee’s resignation does not lead to any pension shortfall stemming from previous years. The accrued entitlement is index-linked after leaving the job in the same way as if the person in question had not changed jobs.

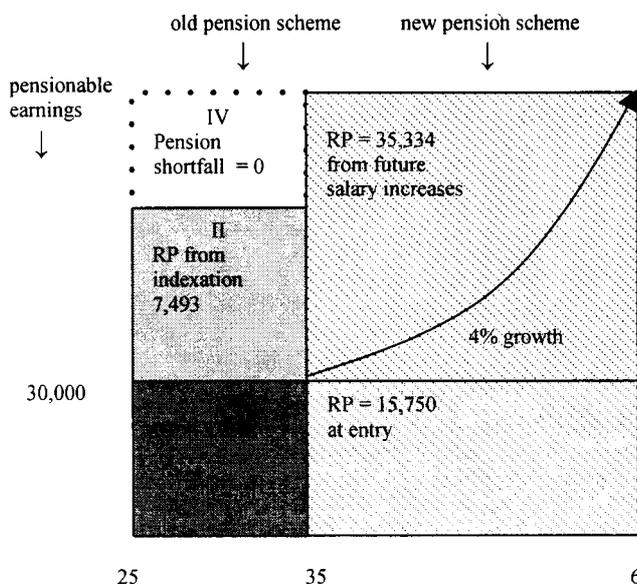
Thus value transfer here does not serve to offset an expected pension shortfall, but to arrive at a higher pension by comparison with the situation before resignation.

This is particularly significant in the case of transition to a final pay scheme if salary is expected to rise faster in the new job than the expected indexation rate in the old pension scheme, or in the case of transition to an index-linked average pay scheme, if the indexation system in the new scheme is more generous than in the old.

diagram 4.1: without value transfer

diagram 4.2: with value transfer, without a pay rise on transition

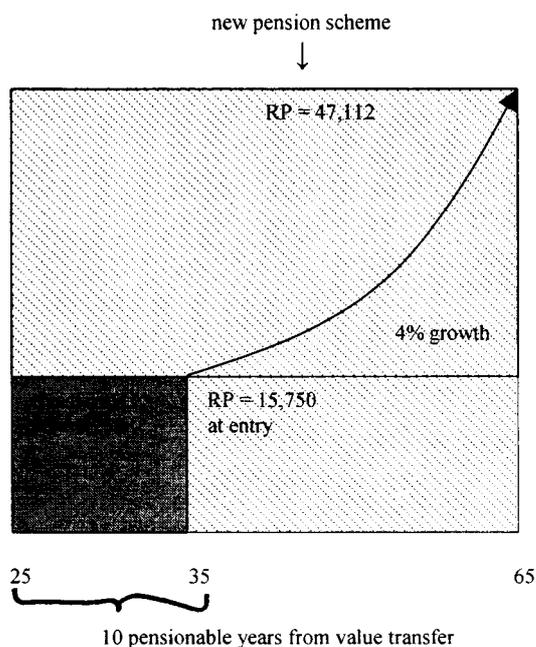
diagram 4.1 without value transfer



Total RP = 63,827 of which
 . 51,084 from new scheme
 . 12,743 from old scheme

There is no question of a pension shortfall on resignation because if the employee had not resigned no extra pension would have been generated from the period already past

diagram 4.2 with value transfer



The value transfer has been additionally beneficial to the person in this example because it has offset a non-existent pension shortfall

III. Some final remarks

The given examples demonstrate the impact of value transfer in broad outline.

What clearly emerges is that it is a complex subject matter, whereby it is not always (or rather, often not) certain in advance whether value transfer actually serves the envisaged purpose, notably limitation or elimination of the pension shortfall that can occur over the previous period as a result of switching jobs and thus also pension schemes.

The examples show clearly that the type of new pension scheme chosen is a significant factor, as are the indexation policy on pension entitlements in the old scheme, the envisaged career in final pay schemes and indexation policy in index-linked average pay schemes.

In practice there are moreover other factors at play.

What pension entitlements are on offer under the new pension scheme, for instance? Or in other words, what happens with the transferred pension entitlements, when they are eventually translated to line up with the provisions of the new pension scheme? Take for instance the situation that the old pension scheme provided for a dependants' pension, while the new one omits this, or provides for a risk-based dependants' pension. Is it wise in that case to transpose the accrued entitlement to dependants' pension into retirement benefits?

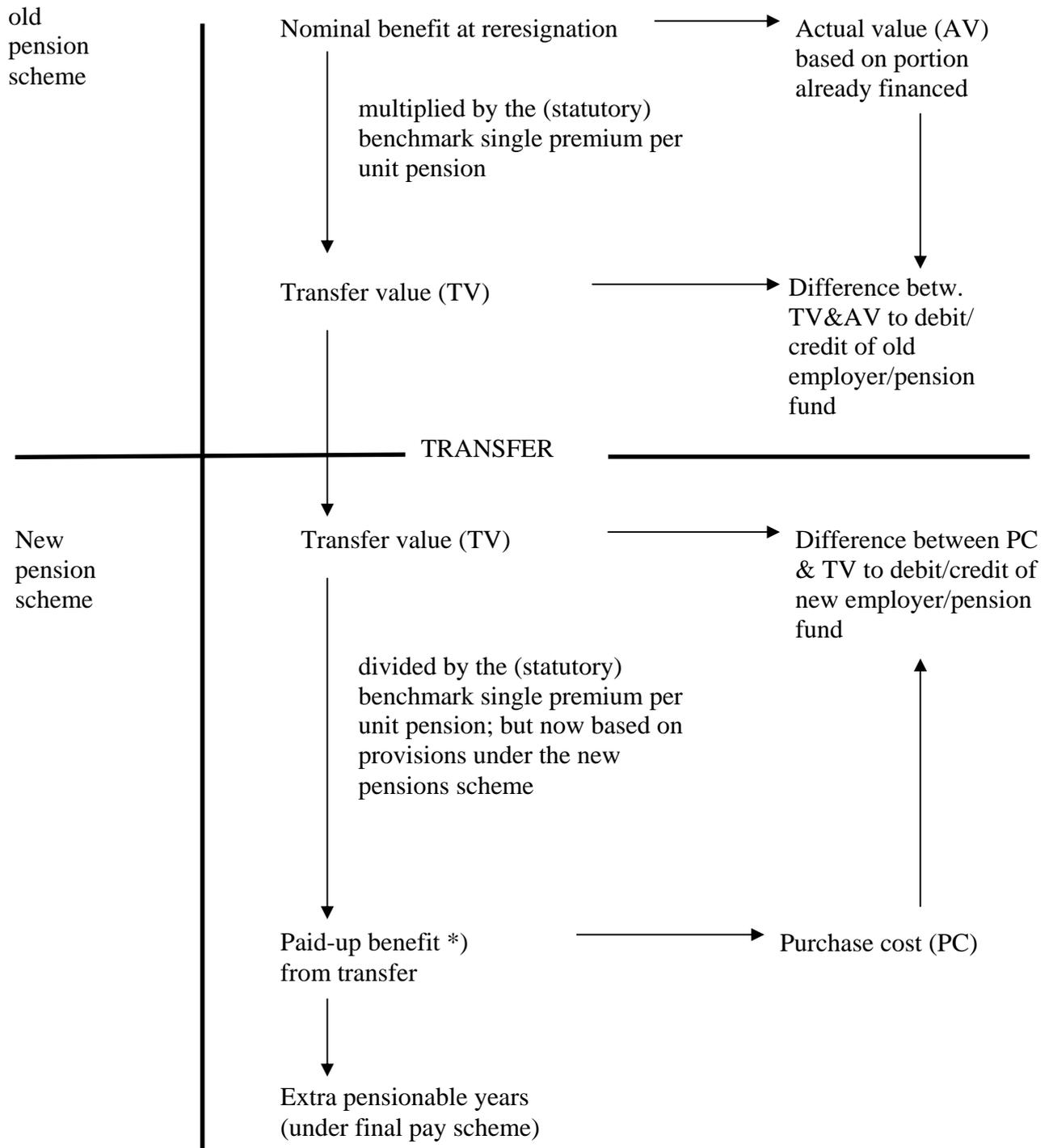
Another factor is pensionable age. In the case of transition from a pension scheme based on a pensionable age of 65 to one with a pensionable age of 62, the transferred retirement pension will be some 30% lower on the basis of an earlier start to pension benefits. Is this what the employee wants?

There are thus a myriad factors to be considered when deciding whether or not to request a value transfer. Adequate information is needed, preferably backed up by internet applications.

Umbrella bodies in the pensions industry have recently decided to set up a good information system of this kind.

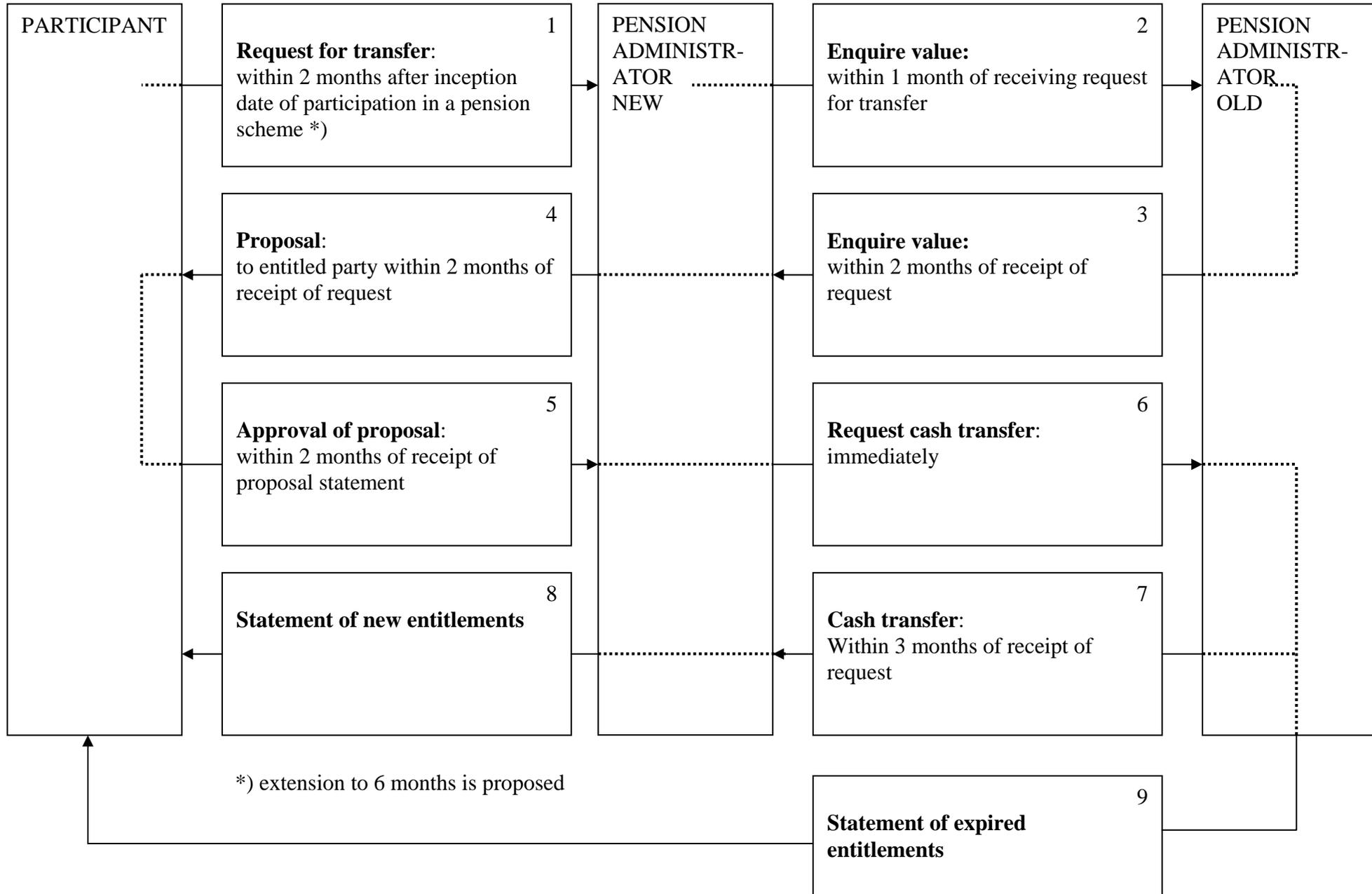
APPENDIX 2
Value transfer in the Netherlands

Diagrammatical overview:



*) When pension schemes are identical this entitlement is equal to nominal benefit at resignation.

Diagrammatical overview: Value transfer procedure



Address list for the Labour Foundation and its member organisations

Stichting van de Arbeid
(Labour Foundation)
Bezuidenhoutseweg 60
P.O.Box 90405
2509 LK The Hague
The Netherlands
T: + 31 70 – 3499 577
F: + 31 70 – 3499 796
E: info.stvda@ser.nl
Internet: www.stvda.nl

Vereniging VNO-NCW
(Confederation of Netherlands Industry
and Employers)
Bezuidenhoutseweg 12
P.O.Box 93002
2509 AA The Hague
The Netherlands
T: +31 70 – 3490 349
F: + 31 70 - 3490 300
E: informatie@vno-ncw.nl
Internet: www.vno-ncw.nl

Koninklijke Vereniging MKB Nederland
(Royal Dutch Association of Small and
Medium-Sized Enterprises)
Brassersplein 1
P.O.Box 5096
2600 GB Delft
The Netherlands
T: + 31 15 – 2191 212
F: + 31 15 – 2191 414
E: redactie@mkb.nl
Internet: www.mkb.nl

Land- en Tuinbouworganisatie Nederland
LTO
(Dutch Federation of Agricultural and
Horticultural Organisations)
Prinsevinkenpark 19
P.O.Box 29773
2502 LT The Hague
T: + 31 70 – 3382 700
F: + 31 3382 811
E: info@lto.nl
Internet: www.lto.nl

Federatie Nederlandse Vakbeweging FNV
(Netherlands Trade Union Confederation)
Naritaweg 10
P.O.Box 8456
1005 AL Amsterdam
T: + 31 20 - 5816 300
F: + 31 20 – 6844 541
E: info@vc.fnv.nl
Internet: www.fnv.nl

Christelijk Nationaal Vakverbond CNV
(Confederation of Christian Trade Unions in
the Netherlands)
Ravellaan 1
P.O.Box 2475
3500 GL Utrecht
T: + 31 30 – 2913 911
F: + 31 30 - 2946 544
E: cnvinfo@cnv.nl
Internet: www.cnv.nl

**MHP Vakcentrale voor middengroepen en
hoger personeel**
(Trade Union Federation for Intermediate and
Higher Employees)
Multatulilaan 12
P.O.Box 575
4100 AN Culemborg
T: + 31 345 – 851900
F: + 31 345 – 851915
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Internet: www.vakcentralemhp.nl