Pensions: solidarity and choice

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Opinions of working people on supplementary pensions

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Foreword

For decades, the security of their old-age pension has been something that people in the Netherlands were able to take for granted. From the moment they retire, everyone in the Netherlands is entitled to a state pension, and in addition the vast majority of employees have built up a supplementary (occupational) pension through their employer. However, the recent economic crisis has thrown that sense of security into doubt: poor investment results and extremely low interest rates meant that for a long time many pension funds found themselves with too little capital to meet all their future pension commitments. This led to the indexation of pensions being curtailed and even to cuts in pensions and pension entitlements. Population ageing also has a major influence on the affordability of pensions: the burgeoning older population in the Netherlands means the number of people in work (the people who pay pension contributions) per older person is declining.

A National Pension Dialogue was organised in the Netherlands in 2014, in which researchers, civil-society organisations and other stakeholders were able to express their views on the future of the pension system. As part of this dialogue, the Netherlands Institute for Social Research | SCP was asked by the Dutch Ministry of Social Affairs and Employment to carry out a study of the views of citizens on solidarity within the supplementary pension system. This report presents the findings of that study.

It emerged from the study that most people still attach greatest importance to the security of their pension. Solidarity is important, but is subordinate to the need for certainty. A pension fund that is in poor financial health therefore does not engender much loyalty: if members were able to leave and take their accrued pension rights with them, more than half of those surveyed would do so. A substantial proportion of those who remained would moreover only do so because they think the situation at other pension funds or insurers is just as bad.

In addition to the desire for security, there is also a demand for a certain amount of choice. In particular, people would like to have the option of saving for early retirement or to be able to determine the level of risk of their pension fund's investments. In the latter case, most people would favour safer rather than riskier investments – another indication that many mainly value security for their pension.

There is a group who express a preference for a (partially) individual pension scheme rather than a collective scheme. This group includes a relatively high proportion of young people, people with a high income and people who are less satisfied with their current pension scheme. In the recently published Framework Memorandum on the future of the pension system, the Dutch government announced that it wished to look more closely at the balance between collectivity, solidarity and customisation in pensions.

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Professor Kim Putters
Director, Netherlands Institute for Social Research

1 Purpose and background of the study

For decades, solidarity between members of Dutch supplementary pension schemes was something that could be largely taken for granted: members of a pension fund form a collective and together they contributions build up a capital sum which is used to pay their pensions when they retire. The Dutch supplementary pension system still follows the tradition of being organised along the lines of recognisable occupational groups. Whether they be teachers, metalworkers or dockworkers: each group has its own collective labour agreement which among other things regulates their occupational pensions. The fact that it is compulsory to join the employer's pension scheme is always seen as a logical element of the system. Recently, however, questions have been raised as to whether the current system is future-proof: do people still want to build up a pension jointly with other members, or has the time perhaps come to move to a system that is based to a lesser degree (or not at all) on solidarity? This debate was prompted in part by the weak financial position of pension funds, which in many cases were forced to end the indexation of pensions or even to cut pension benefits. It suddenly turned out that the security of supplementary pensions could no longer be quite so taken for granted.

The Dutch Ministry of Social Affairs and Employment launched a national dialogue in 2014 on the future of the pension system. This was intended to lead to a Framework Memorandum which – based on scientific studies and meetings with experts and stakeholders – would generate ideas for a new system. This Memorandum was tabled in the Dutch Parliament in early July 2015 (szw 2015). The Ministry asked the Netherlands Institute for Social Research | scp to carry out a study to ascertain how important people consider solidarity in the pension system to be. The study was also to look at social trends that could be relevant for the degree to which people experience (and/or want) solidarity.

1.1 The present pension system

The Dutch pension system is currently based on three pillars: the basic state pension (aow), supplementary (occupational) pensions and individual supplementary pension schemes. Everyone in the Netherlands receives the basic state pension; every resident aged 15 years and older automatically accrues state pension rights until their retirement age, after which they are entitled to receive a pension. State pension benefits are funded from the contributions paid by those in work. It is a pay-as-you-go system, whereby the present working generation pays for the benefits of the present older generation. Even people who have never worked and have therefore not paid any aow contributions receive the state pension.

Like the state pension, the supplementary occupational pension is also a compulsory system. Virtually all employees in the Netherlands are subject to a mandatory requirement[1] to save for a supplementary pension through their employer. If the company or the sector

has a pension scheme, which most do, employees must join it. They pay contributions and in return receive a pension when they retire.[2] The pension fund to which the employer is affiliated has the task of investing the contributions it receives in such a way as to generate an optimum return at the lowest possible risk. The capital built up must be sufficient to pay all accrued pension entitlements, including both those of the retired generation and the obligations in the long term.
The third pillar of the Dutch pension system consists of individual supplementary pension schemes, and is voluntary: everyone may opt to take out an annuity, single-premium policy or life insurance with an insurer or bank in order to make extra savings towards their pension.
In this study we focus on the second pillar, namely the compulsory supplementary pension.

For years, compulsory mentorship of the employer's pension scheme has been justified by the argument that people need to be protected against not building enough pension: without the compulsory nature, many people would save too little or nothing at all for their retirement. For pension funds, the compulsory nature of supplementary pensions has the advantage that they are not at risk of members leaving if the pension fund has a funding shortfall. This enables them to invest for the long term and thus to invest in higher-yielding shares (Boender et al. 2000). The benefit for members is that fluctuations in investment returns can be spread over several generations. Any setbacks in terms of investment returns or interest rates are passed on to members less quickly, helping to keep their pensions stable.

1.2 The importance of buffers, investments and interest rates

As stated, the task of pension funds is to collect pension contributions and invest them to achieve the highest possible return at the lowest possible risk. The resultant investment capital is used to fund all present and future obligations, i.e. both pensions in payment to the present older generation and the accrued pension entitlements of those currently paying contributions. A key factor here is the buffer that pension funds hold (or should hold) *over and above* the discounted value of the future pension entitlements. The buffer acts as a first line of defence to accommodate disappointing investment results. In the past, it was usual to aim for a funding ratio of around 125-130%, meaning that a pension fund had sufficient funds to meet its obligations and also to carry a reserve of 25-30% over and above this to cover periods when the financial climate was weaker.

The size of the buffer rises and falls with the investment results achieved by the pension fund. Until the banking crisis in 2008, everything was rosy: at the end of 2007 the average funding ratio was 144% of the nominal pension obligations. A year later, however, this had fallen to 95%, with the result that in the fourth quarter of 2008 around 87% of all members were in a pension fund that had a funding shortfall (DNB 2015). Such a rapid deterioration of the buffers was unprecedented. Although funding ratios have improved since then, they are nowhere near the levels seen in 2007; at the end of 2014, the average funding ratio was 108%. At that time, there were 32 pension funds in the Netherlands facing a funding shortfall, together representing 60% of all pension fund members (DNB 2015).

If the funding ratio is below the minimum required level of 105% for an extended period, the pension fund must intervene. One of the options is to end the index-linking of pensions in payment, which means that the purchasing power of pensioners is eroded by inflation. Another option is to increase pension contributions. In that case, it is working people whose purchasing power is affected, because their net pay is reduced. A third option is not to index-link members' pension entitlements, leading to a reduction in their future pension benefits. Finally, there is the option of simply cutting pension entitlements and benefits. This is regarded as a last resort and may only be done if the three other methods do not help (enough) to raise the funding ratio to the minimum level of 105%. The Dutch Central Bank (De Nederlandsche Bank, DNB) can then order pension funds to cut pensions, as in fact happened in 2013 and 2014.

A complicating factor in all this is the level of interest rates, which play a key role in the funding ratio. Higher interest rates mean that future pensions can be paid more easily from the investment returns, while lower interest rates raise the prospect that it will be more difficult to meet future obligations. Since the banking crisis, in particular, interest rates have been at an unusually low level (Pensioenperspectief 2015), putting pressure on funding ratios. In addition, until recently pension funds were required to base their calculations on current market interest rates, which can fluctuate on a daily basis. This made funding ratios unstable, creating nervousness among members, pension fund administrators and pensions regulators. The new Financial Assessment Framework (TK 2013/2014), which came into effect on 1 January 2015, is intended to restore stability within the pension system (see Box 1.1).

Box 1.1 A selection of measures from the new Financial Assessment Framework (FTK)

Implementation of policy funding ratio: replacement of the funding ratio based on the actual current daily ratio by the average funding ratio during the preceding twelve months. All policy measures implemented by the pension fund must be based on the policy funding ratio.

Cutting or indexation: pension funds whose funding ratio is too low are given ten years to build up their capital again. This reduces the risk that they will have to cut pensions. On the other hand, only when the funding ratio is above 110% are pension funds permitted to index-link pensions. This means that pension funds have less freedom to set their own indexation policy. For pension fund members, this means that they will have to wait longer for an improvement in their purchasing power, but also that the indexation policy is made clear for them.

Source: TK (2013/2014)

1.3 Solidarity at risk?

The present system of supplementary pensions is based on solidarity between younger and older employees, between men and women, between contributors and pensioners. This is because all members within a pension fund contribute the same percentage of their salary and therefore build their pension at the same percentage rate: this is the average contribution system. Members collectively build up a pension capital from which all pensions are then paid. This collectivity enables risks to be spread; poor investment results are spread across current workers, current pensioners and future workers (intergenerational solidarity). There is also an element of redistribution: people who die relatively young, for example, help pay for the pensions of people who live longer than average, so that they can be sure of receiving their pension for the rest of their lives.

One of the points that has been raised for discussion recently concerns the fact that younger workers in reality pay too much in contributions and older workers too little. This is a direct consequence of the average contribution system. Since the contributions of young people have much longer to generate returns than the contributions of older workers, they ought in reality to pay less in order to achieve the same level of pension. It has been calculated that a 30 year-old member suffers a disadvantage of between 2% and 10% of their pensionable earnings (Gradus & Vijverberg 2014). For an employee who remains with the same pension fund throughout, this is not a problem because he or she will eventually benefit themselves from the contributions of younger members.[3] By contrast, someone who switches pension fund at around age 40 due to changing jobs or becoming self-employed does not enjoy this benefit and is therefore a net contributor. As the number of people changing jobs and becoming self-employed is growing, this is a problem that is set to occur and more frequently.

Another relevant point is the uncertainty about the amount of the eventual pension. The Netherlands currently has a 'defined benefit' system, in which the amount of pension is linked to the recipient's salary and the number of years worked.[4] A major drawback of this system is the lack of explicit clarity regarding the ultimate amount of pension that will be received. Whilst pension funds offer a nominal guarantee for the pension with a high degree of certainty, they are not obliged to adjust pensions and pension entitlements to keep pace with inflation if the financial situation of the fund does not permit this. If a pension fund has an inadequate buffer and/or a funding shortfall, the governing board can decide not to index-link pensions, or – as a last resort – to reduce pensions. Ultimately, therefore, pension funds cannot offer a complete guarantee of pension amounts and pensioners cannot enforce claims in respect of the indexation of and prevention of cuts in their pension. In view of this uncertainty about the ultimate pension entitlements, driven by the fact that the risks are increasingly borne by pension fund members, voices are regularly heard arguing for a system based on individual defined contribution schemes, in which the amount of pension depends on the contributions paid and the return achieved on them (Van Ewijk et al. 2014). A major disadvantage of individual schemes, however, is the absence of a buffer, so that members will feel the effects of a deterioration in the financial markets more quickly. Partly for this reason, the Dutch government has rejected the variant of completely individual pension schemes as an option for the future pension system (szw 2015: 10).

1.4 Earlier research on solidarity in pensions

Berden and Kok (2013) carried out a study for the Federation of Dutch Pension Funds (*Pensioenfederatie*) on the desirability of compulsory pension saving and views on solidarity. The findings revealed that almost three-quarters of workers support compulsory pension saving. The most frequently cited reason was that they would otherwise be tempted to put aside too little for their retirement. The compulsory nature of pension scheme membership is thus seen as an incentive to save for retirement. The study makes no distinction between methods of saving for a pension, and it is not possible to tell from this study whether people prefer defined benefit or defined contribution schemes, nor whether they would prefer to save for a pension with a pension fund or an insurer. As regards the views on solidarity, the majority of employees have no problem with the redistribution of funds that is inherent in the present pension system. Generally speaking, at least half the respondents report that they do not mind paying towards the pensions of other groups, and in a few cases this figure rises to around 70%. However, the caveat needs to be applied here that this self-reported solidarity not infrequently stems from self-interest.
For example, many young people who express solidarity with older workers are found to do so mainly to avoid having to pay high contributions themselves in the future. Those whose solidarity is based on a sense of moral duty are in the minority. This is in line with findings from earlier research. For example, Van Oorschot (2000) show that a large majority of Dutch citizens (87%) say that they also have other reasons for paying social security

contributions in addition to the fact that it is compulsory, and that self-interest is the most important motive. The group who say that they pay contributions to ensure that they themselves are also assured of receiving benefit when needed is greater (82%) than the group who feel a sense of moral duty towards the weaker members of society (64%) or who take the fate of benefit claimants personally (42%). In addition, research by Soede (2010) shows that 60-67% of the adult Dutch population were definitely not willing to give up an increase in their own income in order to support other groups. Only between 7% and 19% of those surveyed said they would be willing to do this. Solidarity is therefore not an unconditional given, either in general or when it comes to pensions.

One reason for this may be that the term 'solidarity' evokes an ideological image which people find it difficult to oppose, but do not really know what it means in practice. Using an explicit definition as in the study by Soede (2010) can then produce relatively low solidarity scores. Kuné (2004) accordingly wonders how much support there would be for solidarity if pension scheme members knew exactly what it means; Van der Lecq and Steenbeek (2006) have no compunction in arguing that many forms of solidarity exist by grace of ignorance. We shall look at this in more depth in chapter 2.

Like 'solidarity', 'choice' is a concept to which people cannot really be opposed. In the discussion about pensions, the two concepts are theoretically related to each other: the more choice people want, the less concerned they will be about the solidarity that is inherent in the system of pension funds. On the other hand, Van Dalen and Henkens (2014) argue that, while choice has intrinsic value, people do not necessarily feel compelled to exercise it in practice. It is therefore perfectly possible for people to express a preference for more choice in pensions, but at the same time to want to retain solidarity. This topic is discussed further in chapter 3.

1.5 Research questions and structure of the report

In this study we look principally at the solidarity that pension scheme members (may) experience with other members. The central research questions addressed are as follows:
1. Which social trends are taking place in the Netherlands that could influence the support for solidarity in the supplementary pension system?
2. How important do employees and self-employed people consider solidarity in the supplementary pension system to be?
3. With which groups do people want to share risks?
4. To what extent do workers express a preference for solidarity or choice within supplementary pensions?

Before we answer these research questions, chapter 2 describes the solidarity within the pension system. It looks among other things at *risk solidarity* and different forms of *subsidising solidarity*, as well as how these are incorporated in the supplementary pensions system.

Research question 1 is then addressed in chapter 3, which outlines a number of demographic and social trends that can influence the support for solidarity in the pension system. Among the trends discussed are population ageing and dejuvenation, increased labour mobility, the rise in average education level, increased individualisation and the demand for choice. To answer research questions 2, 3 and 4, an Internet survey was conducted in November 2014 among just over 1,000 persons who were either in waged employment or self-employed. Chapters 4 and 5, respectively, describe the approach and findings of this study. Finally, chapter 6 summarises the answers to the research questions and presents a discussion of the results.

Notes

1 Mandatory under the employment contract, not according to the law.

2 Employer also contribute under this system, generally paying two-thirds of the total pension contribution.

3 This is true provided the pension scheme is not made less generous and the pension accrual rate is not reduced. In reality, these conditions are no longer met: following the raising of the state retirement age, it was decided to reduce the maximum annual accrual percentage. In addition, the maximum salary on which pension can be accrued has been capped at 100,000 euros (TK 2012/2013).

4 The amount of the pension also depends on the indexation.

2 Solidarity in supplementary pensions today[1]

Solidarity is a notion that appeals to people. Several publications show that people value solidarity and regard it as an important basis for the social security system. For example, research by SVB, the organisation that implements national insurance schemes in the Netherlands, shows that almost two-thirds of adults in the Netherlands (both workers and non-workers) regard solidarity, possibly in combination with their own responsibility, as the basis for social security (Van Eekelen & Olieman 2009). Support for the welfare state is also strong and people regard it as desirable that certain groups, particularly the sick and weaker members of society, should receive support from the government (Vleeming & Van Eekelen 2011).

Solidarity is usually defined in terms of a sense of fellowship and mutual support within a group. De Beer (2005) divides solidarity into two dimensions, resulting in four types of solidarity. The first dimension is concerned with the distinction between voluntary and mandatory solidarity; the second refers to unilateral versus reciprocal solidarity. At one end of the spectrum is pure altruism, in which someone chooses to do something for someone else without expecting anything in return. The 'sense of fellowship' referred to above, expressed for example in doing voluntary work or donating money to good causes, is close to this. In the context of social security, however, solidarity has a mandatory and reciprocal character: the government compels people to pay taxes and social security contributions, but at times of need they are eligible to receive benefits paid from those contributions.

Mandatory solidarity is also a feature of the Dutch supplementary pension system: it is compulsory for employees to enrol in the pension fund to which their employer is affiliated. This has the disadvantage for employees that they cannot simply switch to a different pension fund or a different insurer, but has the advantage that pension funds can spread the impact of disappointing investment results over several generations: workers, pensioners and future generations. Working people notice this through higher contributions or non-index-linked pension entitlements; older people notice it in the fact that their pensions are not index-linked. In this context, therefore, solidarity has a primarily economic meaning, namely that all participating (and future) generations share in the risks.

2.1 Risk solidarity and subsidising solidarity

Insurance operates on the basis that an insured person normally pays a premium that is in proportion to the level of future benefit and the amount of risk. There is in other words *risk solidarity*. Everyone runs the risk of something unfortunate happening; in the case of home contents insurance, for example, there is the risk of fire or theft. Those affected by the insured risk receive benefits to compensate for the loss. On balance, everyone benefits from this because every insured person knows they are covered financially in the event of fire or theft. In this type of insurance, the solidarity is based more on commercial considerations than on the notion of supporting weaker members of society. Some therefore do not regard this as genuine solidarity, because it is driven primarily by self-interest. This type of solidarity is also a feature of supplementary pensions, though in this case the insured risk is a long life. From a financial perspective, a long life is a risk because a good deal more capital has to be saved up in order to provide an income for the rest of the recipient's non-working life. As the pension is paid until the moment of death, this works to the advantage of those who live longer than expected, and to the disadvantage of those who die sooner. However, it is not known in advance who will live longer or shorter, and this solidarity therefore benefits everyone. Insuring the longevity risk means that not everyone has to build up a large capital sum on their own in case they should live to be 100, for example. Instead, each member simply pays a contribution and everyone is ex-ante better off as a result. It is only possible to establish in retrospect that certain groups paid too much because they died relatively young.

The form of solidarity that exists when people pay a contribution that does not correspond to their benefit and risk is known as *subsidising solidarity*. This form of solidarity occurs when one group has a greater probability of experiencing the insured risk, but their contribution (premium) is the same as everyone else's. This form of solidarity is also found in the supplementary pension system. For example, women have a higher average life expectancy and therefore a greater chance of a long life. However, they pay the same contributions as men and are therefore in reality subsidised by men. Box 2.1 describes some other examples of subsidising solidarity in the pension system.

Subsidising solidarity is only possible if it is compulsory, as is the case with pension funds. De Beer (2005) accordingly refers to this type of solidarity as 'social solidarity', transfers between different groups in society organised by the government with the aim of protecting the weaker members. In reality, it is questionable whether it is always the weaker members who are protected; one of the examples described in Box 2.1 concerns people with a high level of education and income: their average life expectancy is higher, but they pay the same contribution rates as those in the lower socioeconomic strata.

Box 2.1 Examples of solidarity in the pension system

- *Risk solidarity.* This type of solidarity relates to the standard insurance principle that some insured persons suffer loss/incur costs and that these are covered from the general premiums paid. In the case of pensions, these costs are related to the risk of living longer than average.
- *Solidarity between younger and older workers.* Younger employees pay a relatively high contribution for their supplementary pension compared with the rights they accrue, whereas older employees pay relatively low contributions. This is a consequence of the fact that the annual pension contributions are the same for everyone, whereas the contributions paid by younger workers have much longer to generate returns and therefore build more capital than is needed to pay their eventual pension; this is the average contribution system. For someone who remains enrolled in the same pension fund throughout their working life this is not a problem, because from a certain point they will be compensated for the relatively high contributions paid whilst they were younger and (provided the pension scheme is not made less generous) will turn out to have paid about the right amount of contributions.
- *Solidarity between active and post-active workers.* In the case of supplementary pensions people in work pay additional contributions where necessary, for example if the returns on the pension fund investments fall short, to help pay for the pensions of retired workers. Post-active workers do not receive an increase in their pensions in this event.
- *Solidarity between generations.* This type of solidarity is closely related to solidarity between active and post-active workers, but goes slightly further in the case of supplementary pensions. As the pension buffer is sometimes higher and sometimes lower, some generations pay relatively low and others relatively high contributions.
- *Solidarity between groups with a low life expectancy and groups with a high life expectancy.* From a pure insurance perspective, groups with a lower life expectancy ought to pay lower contributions. However, since everyone who is enrolled in a supplementary pension scheme pays the same contribution rate, there is subsidising solidarity between these groups and groups with a higher life expectancy (women, people on higher incomes, higher socioeconomic classes).
- *Solidarity between those in work and those unfit for work*. People with an occupational disability accrue pension rights but do not have to pay contributions. There is thus solidarity between those in work and them.
- *Solidarity between people with a flat career path and people with a steep career path.* In a final salary scheme, people who have progressed further than average in their careers receive a higher pension in relation to the contributions paid than people with a flat career trajectory. This effect is much smaller in average salary schemes[2], but is still present, in part because older workers pay relatively low contributions.

This summary is based in part on Kuné (2006).

Where insurers offer an annuity policy, there is little or no subsidising solidarity. If an insurer were to set the premiums too high for one group in order to 'subsidise' another group, the former group can (and will) switch to an insurer that does not apply this subsidising principle and therefore charges lower premiums. Another possibility is that the group that is paying too much may simply decide not to take out insurance. Those at high risk then lag behind in the collective, and as a consequence will ultimately only be able to take out insurance at a high premium. Insurers can therefore only operate on the basis of risk solidarity, and will have to set a premium for each insured person which corresponds to their level of risk and benefit; otherwise, the insurer would price itself out of the market for certain groups.

2.2 Solidarity and the average contribution system

One of the forms of solidarity in the supplementary pension system is that between younger and older pension fund members. As described in Box 2.1, younger employees pay proportionally too much in contributions for the pension rights they accrue, due to the average contribution system. On the other hand, an advantage of the average contribution system is that, as long as people stay with the same pension fund, they pay the same amount in contributions over their employment career as a whole and build up an equal pension. Moreover, the labour costs of younger and older employees are the same because the contribution percentage does not vary with age. As a result, at least for this aspect, it makes no difference for an employer whether they take on a younger or older person.

In theory, a younger person ought to be able to pay lower contributions than an older person in order to accrue the same pension rights. This is because the contributions paid by the younger employee are invested for a long time, while those paid by the older worker have to be addressed quickly in order to pay the pension. On the other hand, young workers will themselves also benefit from the cheaper pension accrual when they are older. The turning point lies at around age 45. Employees who remain with the same pension fund throughout their working lives will broadly speaking have paid more less the right contributions.

The average contribution system has been questioned in recent years (Boven 2014). As fewer and fewer people spend their whole working lives with the same employer, they are less often ‘subsidised’ by the next generation of young workers. This is the case, for example, when someone decides to become self-employed; he or she has then paid a relatively large amount for the pension they accrued during their time as an employee. The same applies for people who first work full time and then switch to working part-time. Conversely, people who enter the employment process relatively late benefit from a higher pension accrual rate than those who began working at an early age.

One of the most important proposals in the recent policy memorandum on the future of the Dutch pension system is the phased transition to a new system of pension accrual starting in 2020 (SZW 2015: 13). The preferred option is a system of ‘degressive accrual’ in which everyone continues to pay the same contributions but contributors build up fewer pension entitlements as members grow older. Membership of a pension scheme would remain mandatory under this proposal.

The Netherlands Bureau for Economic Policy Analysis (CPB) has calculated that the costs of changing the system could reach nearly 100 billion euros (Lever et al. 2014). This gives an indication that abandoning the average contribution system would have major consequences for the pension accrual of current members, especially those who are currently aged around 45 and are midway through their careers. The pensions memorandum published by the Dutch Ministry of Social Affairs and Employment (2015) leaves open how this transition problem should be addressed. Bovenberg (2014) argues that it can be resolved by allowing workers to build up extra state pension rights which are not income-dependent. This would enable them to close the pension gap that they would face as a result of the transition to the new system. A further advantage would be that the improved pension provision for self-employed people. Gradus and Vijverberg (2014) believe that, assuming there is a move towards a defined contribution system, the costs of the transition would be partly offset by the lower pension administration costs. The costs could also be mitigated by only compensating those members who are hardest hit by the transition (Gradus & Vijverberg 2014: 55). Other authors propose resolving the problem through the tax system, though there is some debate as to whether abolishing the present system of giving tax relief on pension contributions and taxing the pension benefits when they are paid is the most appropriate means of achieving this (Hoogduin & Snippe 2015; Starink 2015).

2.3 Intergenerational solidarity

As every generation of employees is required to enrol in their employer's pension scheme, it is possible to organise intergenerational solidarity. In fact, 'intergenerational risk-sharing' would be a more accurate term, since it is the investment risk that is spread across several generations. The pension fund's buffer enables return surpluses or shortfalls to be passed on to subsequent generations. The buffer increases when investment returns are high, making subsequent generations better able to withstand any lower returns in the future. Weaker investment returns mean that a smaller buffer is passed on to future generations. The implicit expectation is then that the financial market will improve again at a certain point and that future generations will again be able to profit from higher returns. The new Financial Assessment Framework stipulates that pension funds may only index-link pensions if they have a funding ratio that is above 110% (see also Box 1.1 in chapter 1). This is disadvantageous for existing pensioners: not only have they recently suffered from non-indexation or even a reduction of their pensions, but the new rules mean that they currently have no prospect of an improvement in their purchasing power. On the other hand, pension funds with a funding shortfall are given longer to restore their buffer, thus reducing the risk of (further) reductions in pensions.

Intergenerational solidarity is also a focus in the debate on the future of the Dutch pension system. In 2000 the Netherlands Scientific Council for Government Policy (WRR) concluded that collective pension schemes such as the existing defined benefit system are more efficient than individual (defined contribution) schemes, in which there is no generational or intergenerational solidarity. The ample buffers which pension funds held when that report was published were an important factor in that conclusion; not only did they make it possible to invest in assets with a higher risk and the potential for higher returns, but they also generated returns in themselves (Boenet al. 2000: 75-76). The situation today is markedly different: pension fund buffers have shrunk substantially and new calculations suggest that a collective system based on intergenerational risk-sharing performs better than individual pension contracts in terms of wealth generation (Bonenkamp & Westerhout 2011), though not massively better (Boelaars et al. 2014; Van Ewijk et al. 2014; Westerhout et al. 2014). While collective schemes have the advantage of enabling risks to be shared with future generations, they have the disadvantage of being based on age-independent contributions, indexation and investments. This lack of customisation largely cancels out the positive wealth effects of the risk-sharing. All these factors together suggest that collective systems could perform better if they were to take more account in their contributions and investment policy for the age of members (Wes et al. 2014).

2.4 Misuse of the term 'solidarity'?

The earlier sections of this chapter describe various forms of solidarity. It is however questionable whether transfers in the context of solidarity are always justified. Kuné (2004) argues that the term 'solidarity' is often misused in the pensions debate and wonders how much support there would really be if members knew exactly what they are paying for. He cites as an example the fact that, in the past, younger workers helped pay for the early retirement of older workers, only to see this scheme scrapped for themselves.
Even without such examples, it can be argued that the term is somewhat misleading, if only because of the difference in its sociological and economic meaning. In 'ordinary' language, solidarity has to do with fellowship and sharing one's own advantages with weaker groups. It is an ideological concept which few people will be against. In 'pension-speak', however, solidarity is about redistribution and transfers, and about spreading risks. It may therefore be that the term elicits more positive associations for the average citizen then is warranted, at least in the context of supplementary pensions.

2.5 Conclusions

Their compulsory nature makes it possible to organise solidarity in supplementary pensions. This is a form of *subsidising solidarity*, in that some groups pay towards the pensions of others. Abolishing the compulsory nature would mean that the former groups, who pay relatively more for their pensions, would leave the system. This would leave those who remained facing the prospect of having to pay more. Ultimately, this would undermine the entire pension system.

A key characteristic of supplementary pensions is the solidarity between generations. In theory, the risk of a weak investment result is spread over several generations. This has the advantage that a given cohort is not confronted with a severe shortfall in returns while another cohort does relatively well. The holding of pension buffers creates solidarity between the different generations. In practice, however, this solidarity is limited. High pension buffers have often been used in the past to give contributors a 'contribution holiday' or to increase pensions. This was good news for existing members, but the benefit was not shared with future generations. If the buffer falls too low, the pension fund is required to take action to restore it, for example by raising contributions or suspending the indexation of pensions.

The new Financial Assessment Framework contains explicit rules on spreading the risks across generations. Pension funds are given more time to make good any funding shortfalls, but on the other hand are constrained in their freedom to use any surpluses to increase pension benefits. The fact that the buffer first has to be increased considerably before it can be used to index-link pensions strengthens the intergenerational solidarity.

Notes

1 This chapter is a reworking of Soede (2010).

2 In a final salary scheme, the pension is based on the recipient's most recently earned salary; in an average salary scheme, it is based on the person's average salary over their whole career. Until 2004, final salary schemes were the most common type in the Netherlands; since then, most pension schemes have been converted to average salary schemes.

3 Factors influencing the support for solidarity

As indicated in chapter 1, we first discuss which demographic and social trends in the Netherlands might influence opinions on solidarity in the pension system. We look in turn at the population ageing that is putting the pension system under pressure, the increased labour market flexibility and a number of sociocultural trends.

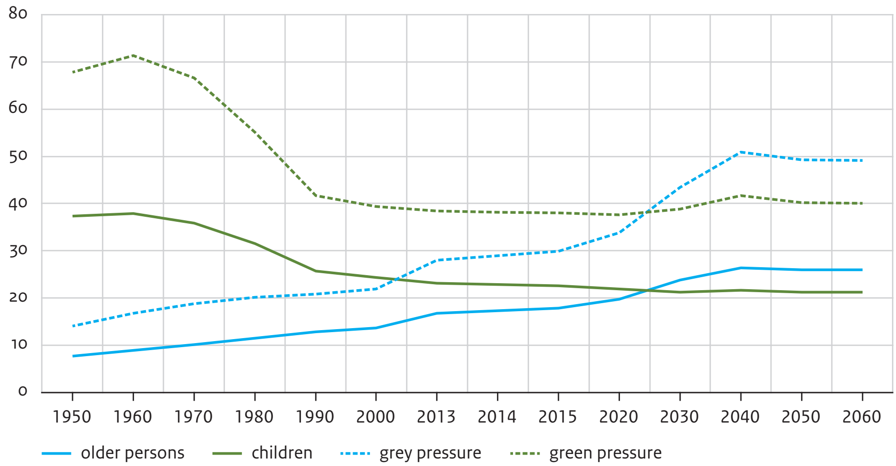
3.1 Old-age pension less of a foregone conclusion

It has become clear in recent years that old-age pension is less of a foregone conclusion than has always been assumed. This is largely the result of the long-lasting economic recession from which the Netherlands is currently recovering. The crisis, which began in the last quarter of 2008 and lasted until midway through 2013 (CPB 2014:33), has resulted in historically low interest rates.[1] As described in chapter 1, this caused the funding ratio of pension funds to fall sharply, from an average of 144% of the nominal obligations at the end of 2007 to 95% just one year later (CPB 2011:59). Funding ratios recovered over the next few years, but in 2011 fell below 100% once again. Many pension funds responded by suspending indexation or even cutting pensions. Although the average funding ratio has now risen to above the minimum required level of 105%, several Dutch pension funds were still forced to cut pensions in 2014 (CPB 2014:54-55). Suspension of indexation and cutting pensions have direct consequences for the purchasing power of the over-65s, but also hits those currently in work because they will receive a lower pension when they retire.

As well as the economic crisis, a number of 'older' trends such as population ageing and dejuvenation also play a role in shaking the unquestioned nature of old-age pensions. Older people make up an ever growing share of the population, while at the same time the share of children is falling. On the one hand this means that the number of pensions in payment is rising, and on the other that there are fewer and fewer people to pay for them. Figure 3.1 shows the trends in the shares of older persons and children in the Dutch population since the 1950s, as well as the pressure that these two age groups place (or are expected to place in the future) on the potential labour force (i.e. 20-64 year-olds).

Figure 3.1

Older persons (aged over 65) and children (aged up to 20 years) in the actual or potential labour force, 1950-2060 (in percentages)[a]



a 'Grey pressure': ratio between the number of persons aged 65 years or older and the number of persons aged 20-64 years. 'Green pressure': ratio between the number of persons aged up to 20 years and the number of persons aged 20-64 years.

Source: CBS (2013, 2014a)

Figure 3.1 shows that the share of children (aged 0-19 years) declined sharply in the 1970s and 80s. This was a result of social trends such as secularisation, women's emancipation and the availability of better contraception. Women stayed in education for longer, more often took paid jobs and began having children later. In addition, the contraceptive pill made it possible to plan the number of children better, leading to a reduction in the average number of children per woman (De Graaf & Sprangers 1999). The share of children in the population has continued to decrease, though the pace of the reduction has slowed since 1990. This slight downward trend is set to continue in the coming decades: it is estimated that people aged under 20 will make up 20% of the population in 2060.
The fall in the share of children has been mirrored by an increase in the share of older people. In the 1950s, the older generation made up less than 8% of the total Dutch population, but this figure has more than doubled since then. This year, the over-65s account for roughly 18% of the population, and this is forecast to rise to over 25% by 2040. This is greatly increasing the pressure on the potential labour force: by 2040, it is projected that there will be two people in work for every pensioner, compared with three today (see Figure 3.1). The raising of the retirement age will ameliorate this to some extent: a state retirement age of 67 leads to a projected 'grey pressure' of 45% in 2040, instead of

51% otherwise. That is equivalent to 2.2 working people per older person (RIVM 2014). The acceleration in the raising of the retirement age and – from 2022 – the linking of the retirement age to average life expectancy (TK 2014/2015) will further increase the number of economically active people per older person. However, these measures are not expected to restore the situation to the present 3.5 workers per older person, and the security of pensions will therefore remain under pressure.
Concerns about the affordability of pensions in the future, combined with recent cuts to pension benefits, begs the question of whether the present pension system is still fit for purpose. Other social trends are also contributory factors, such as the increased labour mobility and higher education level of the population. In the following sections we will look at these social trends in more detail and discuss their relationship to solidarity in the pension system.

3.2 Increased labour mobility

There has been a sharp increase in labour mobility in recent years. Whereas in the past people often spent their whole lives working for the same employer, today they regularly change jobs or become self-employed. Sometimes this is based on their preference, at other times it is a choice imposed on people because they no longer have (the prospect of) a permanent job. Figures published by Statistics Netherlands (CBS) (2014b) show that the number of employees with flexible employment contracts has increased in recent years, and especially since 2011, from 15% to 18% of the working labour force (see Table 3.1).
The number of employees changing jobs presents a mixed picture. In the economically strong period 2005-2008, the number rose from fewer than 315,000 to more than 500,000 per year. It then collapsed following the onset of the crisis, falling to 238,000 by the third quarter of 2014 (Table 3.1). Vlasblom et al. (2015) also show a decline in the number of job-changers since 2008. Changing jobs is also increasingly an enforced choice: in 2012, 16% of people who were actively seeking another job cited the fact that they were (in danger of) losing their present job as the reason, making the threat of job loss the most frequently reported reason for looking for other work in that year. In 2008 this figure was just 9%, and losing one's current job occupied a distant fifth place in the list of job-seeking motives.

Table 3.1

Employees with flexible employment contracts and job-changers, 2003-2014 (in numbers and as a percentage of the total working labour force)

	employees flexible contract		job-changers	
	N (x 1000)	% of working labour force	N (x 1000)	% of working labour force
2003	811	11.6	379	5.4
2004	818	11.8	319	4.6
2005	855	12.3	314	4.5
2006	943	13.3	378	5.3
2007	1084	14.8	455	6.2
2008	1132	15.1	501	6.7
2009	1105	14.8	427	5.7
2010	1104	14.9	327	4.4
2011	1120	15.2	304	4.1
2012	1177	15.9	289	3.9
2013	1215	16.7	242	3.3
2014, third quarter	1317	18.1	238	3.3

Source: CBS (2014b)

Like the number of people with a flexible employment contract, the number of people in self-employment has also increased. This growth has however been more modest, rising by around half a percentage point per year since 2010 (Table 3.2). A steadily increasing proportion of self-employed people are sole traders – an increase from around 60% to 70% in the period 2003-2014. This is once again (partly) attributable to the economic crisis. Some of them are former employees who lost their jobs due to their employer's bankruptcy or rationalisation and who then decided to work for themselves. Others are employees who were advised by their employer to become self-employed, so that the employer could then hire them in on a flexible basis (KvK 2014: 4).

Table 3.2
Self-employed workers and sole traders, 2003-2014 (in numbers and as a percentage of the total working labour force)

	self-employed		sole traders	
	N (x 1000)	% of working labour force	N (x 1000)	% of working labour force
2003	880	12.6	531	7.6
2004	910	13.1	553	8.0
2005	933	13.4	570	8.2
2006	962	13.6	599	8.4
2007	1005	13.8	635	8.7
2008	1038	13.8	678	9.0
2009	1039	13.9	687	9.2
2010	1050	14.2	705	9.5
2011	1077	14.6	728	9.8
2012	1095	14.8	752	10.2
2013	1123	15.4	784	10.8
2014, third quarter	1156	15.9	809	11.1

Source: CBS (2014b and 2014c)

The more flexible labour market may mean that people feel less affinity with the way in which the present pension system is configured. Moving to a different employer can also entail moving to a different pension fund, which often has consequences for their later pension. Employees who decide to become self-employed also have to make their own provision for their retirement from that point onwards. Particularly where their decision is driven by the idea of being 'their own boss', they will attach little value to collective pension schemes. Research in fact shows that in practice a high proportion of sole traders build up little or no pension, instead spending the money on other things and deferring organising their pension provision (SZW 2013).

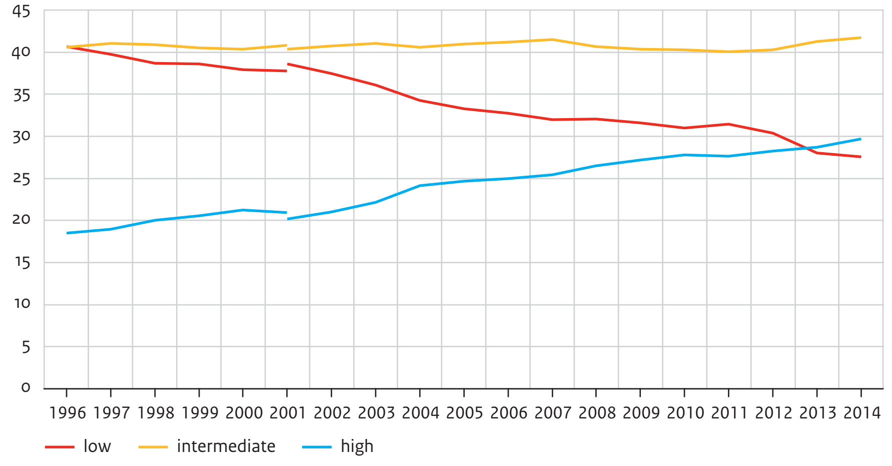
3.3 Steadily rising education level

The literature often refers to the increased education level in the Netherlands is one of the factors that cause people to attach less value to solidarity within supplementary pensions. The argument is that a better-educated populace is more assertive and prefers to make its own arrangements. In this section we look at this in more detail.

A higher education level ...

People today have more and more choice. They can largely structure their lives as they see fit; things such as choice of partner and occupation are no longer – as was the case in the 1950s – determined by Church and tradition, but rather by education level and free will (Herweijer & Josten 2014). Figure 3.2 shows the steady rise in the education level of 15-64 year-olds in the Netherlands since the middle of the 1990s. Where 40% had a qualification to no more than pre-vocational secondary level and fewer than 20% had completed a higher education or university education, in the third quarter of 2014 these figures both stood at just under 30%.

Figure 3.2
Education level of the population aged 15-64 years, 1996-2014 (in percentages)[a, b]



a 2014 figures relate to the third quarter.
b A trend break occurred in 2001 due to the use of a new weighting method.

Source: CBS (2014d)

... leads to individualisation ...

One consequence of the rise in education level is that people are increasingly able to structure their lives as they wish, and are less dependent on paternalistic institutions such as family, Church and school. This trend is often referred to as *individualisation*. Individualisation in the sense of autonomy vis-à-vis traditional institutions is described by Felling and Scheepers (2000, in Van Lindenberg 2008) using the term *de-institutionalisation*. This manifests itself in phenomena such as the household dilution that has taken place

over recent decades (more single-person households, fewer children), but also in reduced church attendance and falling membership of political parties and trade unions. For Ultee et al. (2003), this form of individualisation is closely related to social cohesion or, framed in negative terms, dissolution. De-institutionalisation is also visible in the phenomenon whereby children leave the parental home in order to live alone, or women continuing to use their maiden name after marriage. It is also much more common for partners to have different circles of friends or not to undertake activities jointly, and children having their own room and the mother or father having their own study is today regarded as 'normal' (Schnabel 2004a).
As well as de-institutionalisation, Felling and Scheepers (in Van Lindenberg 2008) also distinguish four other meanings of individualisation. *De-traditionalisation* or *cultural individualisation* refers to reduced support for traditional norms, values and opinions. Once again, these are often the opinions of the Church and other traditional institutions. *Privatisation* refers to the looser ties between the individual and the collective structures of which he or she forms part: the fact that someone belongs to a particular group (generation, social class, religious grouping, etc.) is less and less relevant in determining their own opinions and behaviours (De Beer 2004). The fourth meaning of individualisation, *fragmentation*, refers to the weaker cohesion between an individual's views in different areas of life. Finally, *heterogenisation* or *pluralisation*, as De Beer calls it, relates to the diversity of individual opinions: people increasingly differ from each other in their ideas and views.

Although few people, including social scientists, would dispute the existence of the trend towards individualisation, De Beer (2004) argues that there is actually little empirical evidence for it. While it is true that there are all kinds of indications for individualisation in the sense of de-institutionalisation, the looser ties between individuals and traditional institutions, there is almost no empirical basis for the four other forms of individualisation. Based on two meta-analyses of data from 30 years of SCP research, he observes that individualisation in the sense of pluralisation (more diversity in individual opinions) or privatisation (the reduced importance of the social category to which someone belongs in shaping their opinions) or privatisation (the reduced importance of the social category to which someone belongs in shaping their attitudes, behaviours and circumstances) cannot be proven. If anything, the contrary appears to hold: viewed over a period of 30 years, there is indeed a greater diversity of views on a majority of the variables studied, but in many other cases people have actually grown more uniform in their opinions. The characteristics indicating the social category to which people belonged (sex, age, education level, etc.) also explain an ever larger part of the variance in views and behaviours. This is the opposite of what might be expected on the grounds of the assumed trend towards privatisation.
As indicated earlier, the term 'individualisation' also has a negative connotation, suggesting that people care less about each other and are only concerned with their own personal interest. Individualisation is accordingly often seen as a threat to social cohesion (Schnabel 2004b). Once again, however, there are few concrete indications to support

this. The percentage of people in the Netherlands who do voluntary work has been between 25% and 30% since the middle of the 1990s[2] (De Beer 2005; Posthumus et al. 2013), while more than 80% of households give money to good causes[3] (Posthumus et al. 2013). An overview of different studies on solidarity in society also shows that a majority of the Dutch population want to see a society that is focused on solidarity, security and a restoration of norms and values (Lewin & Zweers 2014).

... and possibly to a desire for more choice?

The rise in education level has not only meant that people are increasingly *able* to make their own choices in life, but also – this at least is the assumption – that they increasingly *want* to do this. This desire for more responsibility and choice is often put forward by politicians as an argument for transferring tasks and responsibilities from government to the market and civil-society organisations (Veldheer & Bijl 2011).

Recently, however, the disadvantages of choice have also become clearer. For example, presenting people with all these choices leads to irritation because many people are unwilling or unable to choose, but feel they are forced to do so by a government that is increasingly taking a back-seat role. The introduction of market forces in areas such as health insurance, energy suppliers, telephony, and so on, demands both time and understanding from consumers. The freedom to choose then feels more like a compulsion to choose. Where economists start from the assumption that more choice leads to more prosperity and well-being, an excess of choice is actually found to have precisely the opposite effect (the law of diminishing returns). The more choice that is offered, the greater the chance that people will refuse to make any choice at all, and will stay loyal to their existing health insurer, Internet provider, etc. (Veldheer & Bijl 2011).
When it comes to choice in relation to pensions, people appear to be somewhat split. Van Dalen and Henkens (2014) show on the one hand that there is a majority who would like the freedom to organise certain aspects of their pension themselves, but that there is an equally large majority who would prefer those same aspects to be organised for them automatically. Research by Veldkamp (2014) also shows that a majority of respondents, mainly because of the ability to tailor their pension arrangements to their personal situation, are in favour of more choice in saving for their pension. At the same time, however, there is an acknowledgement that many people lack the knowledge to be able to make those choices, and therefore risk making the wrong choices.
De Beer et al. (2014) looked at four types of choice to see what impact they would have on the pension system in terms of customisation, continuity and the relationship between costs and benefits. They concluded that choice comes at a price in all four scenarios, either in terms of higher administration costs or in the sense of less solidarity and less risk-sharing. In two scenarios there is an exit option, whereby employees and employers, respectively, can decide for themselves where they place the administration of their pension scheme. These scenarios have the biggest impact: in the situation where people are

free to exit their present pension fund, intergenerational solidarity and risk-sharing between men and women, for example, will be difficult to maintain, while the transaction and administration costs will increase. The other two options assume that pension fund membership will remain mandatory but that more choice will be introduced within the existing pension schemes. These scenarios are found to be much less far-reaching in their effects, though there is a chance that younger people will more often opt for a lower accrual rate. That means they will receive a lower supplementary pension, but also that their contribution to the solidarity with older members will reduce. In fact Van Rooij (2015) shows in this context that by no means everyone would make use of the opportunity to temporarily adjust the level of their pension contributions; only 8% of employees say they would want to temporarily reduce their contributions, while a further 19% would opt to pay less now if they could compensate for this later by paying more. Almost half the respondents would not make use of the choice offered, or would only use it to temporarily build up a bigger pension (30% and 19%, respectively.

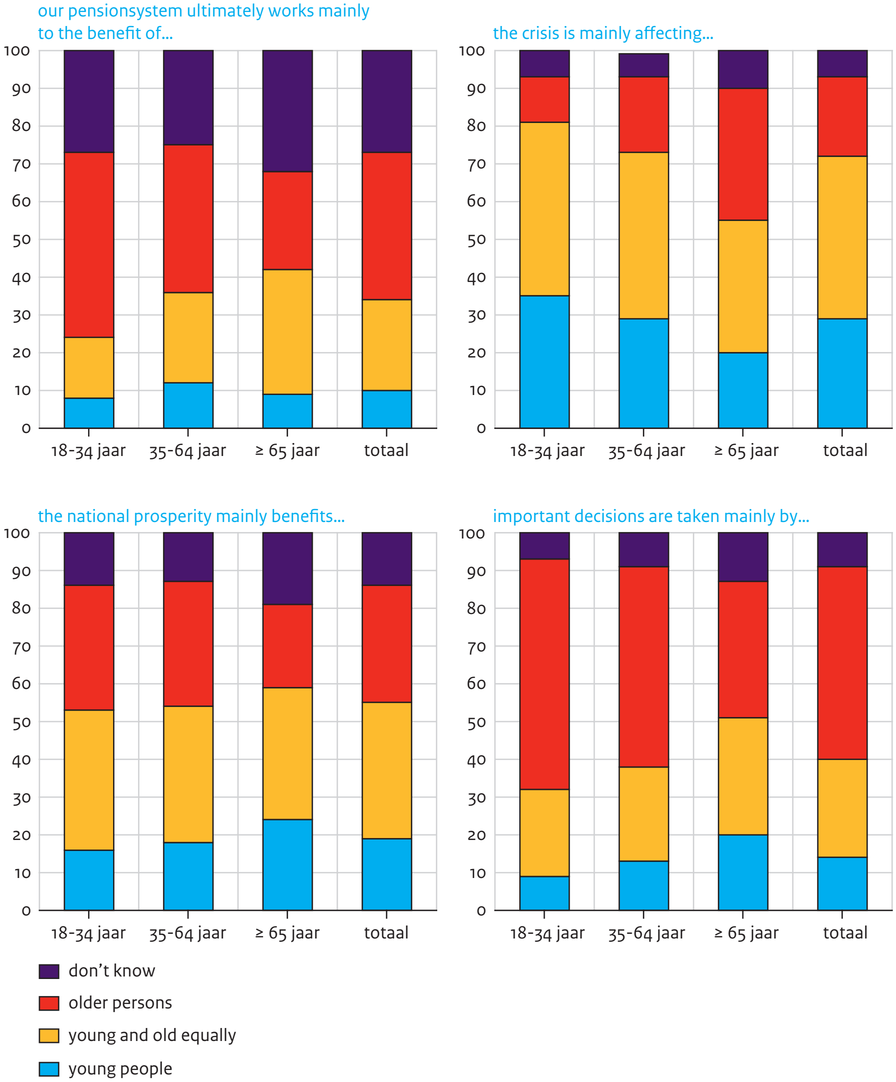
3.4 Dividing lines between young and old?

As described in chapter 2, there is (mandatory) solidarity between young people and older people in the Dutch pension system. This applies both for the state retirement pension and for supplementary pensions that people build up through their employer. Based on the average contribution system, younger employees pay more contributions towards their supplementary pension than is necessary from an actuarial perspective, while older workers pay relatively little. In this sense they are 'subsidised' by their younger counterparts.

The 2014 edition of the Social and Cultural Report (*Sociaal en Cultureel Rapport 2014*) looked in depth at the differences between population groups in the Netherlands. Central questions addressed were whether the oppositions between groups are becoming sharper and whether certain population groups are consequently faced with reduced life opportunities (Vrooman et al. 2014). One of the oppositions studied was that between young and old, including how young people (aged 18-34 years) and older people (aged over 65) feel about their own and each other's social position. The results are presented in Figure 3.3. They show that many young people feel that older people are better off than they themselves are, that older people derive most benefit from the pension system and the national prosperity and have the biggest say in the country, whereas young people are the ones who are having to pay the costs of the crisis. The converse view is less widespread, though older people do portray the position of young people in a more positive light and their own position in a more negative light than 18-64 year-olds.

Figure 3.3

Perceived social position of young and older persons, by age category, 2014 (in percentages)



Source: SCP (ViN'14)

Table 3.3 shows how older and younger people feel about solidarity between the generations. On the one hand it shows that a sizeable proportion of the population are concerned about that solidarity: between 30% and 44% agree with the statement that solidarity between young and old has declined. On the other hand, over half of both young people aged up to 35 and people aged 35-64 years say they are not willing to give up any income to support older people. The percentage of older people holding this view is considerably smaller (36%), but the share of 'don't knows' in this group is higher. The share who would be prepared to give up some of their income for the sake of older people is around 15% in all three age categories, in line with earlier research on solidarity (Soede 2010, see chapter 1). When it comes to solidarity with young people, similar results are found: once again, the group who are not willing to give up any of their income is substantially larger than the group who say they would be willing to do this. Here, the middle group display the greatest solidarity: almost 40% of them would be willing to give up some of their income to help young people.

Table 3.3
Opinions on solidarity between young and old, 2014 (in percentages)

	disagree	neutral	agree	don't know
solidarity between young and old in the Netherlands is under pressure				
18-34 years	20	35	30	16
35-64 years	20	31	36	13
≥ 65 years	15	21	44	19
I would be willing to give up some of my income to support older people more				
18-34 years	53	28	14	5
35-64 years	50	27	15	8
≥ 65 years	36	23	17	24
I would be willing to give up some of my income to help young people				
18-34 years	45	29	22	5
35-64 years	46	30	38	6
≥ 65 years	19	39	22	19

Source: SCP (ViN'14)

3.5 Conclusions

The first main question for this study relates to the influence of a number of social trends on support for solidarity within the Dutch pension system. The first finding to emerge in this chapter is that it has become increasingly clear in the recent period that old-age pen-

sions cannot be taken for granted. The economic crisis, but especially the much longer trend of population ageing, are putting pressure on pensions, and this situation is unlikely to improve in the decades ahead, despite the raising of the retirement age.
One possible consequence is that young people in particular feel they are losing out: they will have to work longer in order to provide for an ever growing group of older people, while they themselves will receive a smaller pension, partly due to the lowering of the accrual rate, but also to the fact that pension funds are being (forced to be) more cautious in index-linking pensions. The upshot may be that young people will choose to arrange their pensions themselves rather than joining the present collective system. If this proves to be a cohort effect,[4] the number of people wishing to make their own arrangements will increase in the future.
Another trend which may influence the degree of solidarity in pensions is the increasing flexibility of the labour market. People today, voluntarily or otherwise, change jobs more often and more frequently decide to become self-employed. This latter move, in particular, can have a detrimental effect on their pension accrual: self-employed workers (sole traders) are responsible for providing for their own retirement, but in many cases are found to put off doing so. At the same time, many of them paid relatively more in pension contributions in the period when they were still in waged employment than they will receive back in the form of pension. The current average contribution system thus turns out negatively for them. Because of this, but also because of their desire to be 'their own boss', they may well feel little affinity with the present collective pension system.
A final trend discussed in this chapter is the increased education level in combination with the (presumed) trend towards individualisation and demand for choice. The share of people in the Netherlands with a higher education level has unquestionably risen in recent decades, and there has also been a strong trend towards de-institutionalisation. Whether the demand for choice has also increased is less clear: while people want to be able to choose, when they are given the opportunity to do so, (virtually) everyone is found to choose the same thing.

Although it is often assumed that these trends are associated with declining support for solidarity, both within and outside the pension system, several studies have also shown that a substantial proportion of adults in the Netherlands demonstrate solidarity with others. This may be voluntary solidarity in the sense of doing voluntary work or giving to good causes, or compulsory solidarity in the form of a redistribution of income between young and old, men and women or healthy and disabled people. The fact that highly educated and assertive citizens would like more customisation in their pensions need not be contradictory in this regard.
The opinions of working people on solidarity and choice in the supplementary pension system are the theme of the empirical part of our study, and are discussed in chapters 4 and 5.

Notes

1 In fact interest rates were already on a downward trend before that, falling from 4.63% to 3.03% between 2001 and 2006. After a brief upturn in 2007, rates subsequently fell again to reach 3.94% in 2008 and 1.17% in 2014 (Pensioenperspectief 2015).
2 Both figures are based on the SCP survey 'Cultural Change in the Netherlands' (*Culturele Veranderingen*).
3 Figures are known for the period 2001-2011. The average amount donated has however fallen, from 263 to 240 euros per household per year (Posthumus et al. 2013).
4 A 'true' age effect is based on the influence of age, and the opinions of young people are expected to change as they grow older. A cohort effect refers to the effect of belonging to a particular birth cohort.

4 Study approach

To ascertain how important working people consider solidarity in the pension system to be, with which groups they are willing to share risks and to what extent they value choice (see §1.5), a survey was conducted at the end of 2014 among more than 1,000 people in working waged employment or as self-employed. The results are discussed in chapter 5; in this chapter we look at the study approach.

4.1 The questionnaire, the fieldwork and the respondents

To answer the question of how working people feel about solidarity in the pension system, SCP developed a questionnaire comprising around 30 main questions covering aspects such as how people view membership of a pension fund, how important solidarity and choice are, what aspects people might like more control over, with which groups they are happy to share risks and which they are not – and why. Respondents were also asked about how they think the present system will benefit their own pension.

To assess whether the questions could be understood and interpreted unambiguously, the questionnaire was tested in a number of cognitive interviews prior to launching the actual survey. Four persons were approached who varied in terms of sex (three men and one woman), education level (three low-educated and one highly educated)[1] and labour market position (three in waged employment and one self-employed). These persons gave their consent for an interviewer to go through the questionnaire with them in their homes. Based on their comments and any ambiguities that emerged, a number of question formulations were modified.

The ultimate questionnaire was submitted to a sample drawn by CentERpanel in the period between 21 November and 2 December 2014. The sample was an online research panel administered by the CentERdata Institute for Data Collection and Research, which is affiliated to Tilburg University. The panel comprises a total of just under 5,400[2] persons from around 2,000 households.[3] For this study, 1,472 panel members aged between 16 and 64 years were approached.[4] All envisaged respondents were selected based on the fact that they were in waged employment or working as self-employed freelancers. Of the panel members approached, 1,036 completed the questionnaire fully, a response rate of 70.4%. A further 31 respondents partially completed the questionnaire. Table 4.1 shows the composition of the response group by a number of personal characteristics.

Table 4.1
Background characteristics of the respondents compared with the total number of working persons in the Netherlands, 2014 (in percentages)

	respondents (n=1067)	working people in the Netherlands (n=8,145,000)
sex		
male	55.1	53.4
female	44.9	46.6
age		
16-24 years	0.7	15.6
25-34 years	19.4	20.8
35-44 years	31.7	22.2
45-54 years	22.4	25.1
55-64 years	23.5	16.3
≥ 65 years	2.3	–[a]
education level		
low (maximum vmbo*)	16.0	21.2
intermediate (havo/vwo, mbo*)	31.0	43.3
high (hbo, wo*)	53.0	34.8
unknown	–[a]	0.8
ethnic background		
native Dutch	54.8	80.6
Western migrant	4.1	9.7
non-Western migrant	0.7	9.6
unknown	40.4	0.1
labour market position		
waged employment	90.2	84.1[b]
self-employed	9.6	15.9[b]
other	0.3	–[a]
standardised net monthly household income		
< 1,061 euros (< *modest but adequate* criterion)	6.1	4.9[c]
1,061 – 2,035 euros (< median income)	42.5	–[d]
2,035 – 3,054 euros (< 1.5 x median income)	36.2	–[d]
≥ 3,054 euro (≥ 1.5 x median income)	12.8	–[d]
unknown	2.4	–[d]

Table 4.1
(Continued)

a Not applicable.
b Percentages of the working labour force rather than of the total number of working people.
c Figure refers to persons aged 18 years and older with work as the main source of income.
d Percentages cannot be calculated because the income distribution is not known. The median income of the population is probably slightly lower than that of the response group: in 2012, the median standardised income for households with employment as the main source of income was 23,700 euros per year, equivalent to 1,975 euros per month (CBS 2014e).
* vmbo = pre-vocational secondary education; havo = senior general secondary education; vwo = pre-university education; mbo = senior secondary vocational education; hbo = higher professional education; wo = university education.

Source: SCP (SiP'14); CBS (2014d); SCP/CBS (2014: 68)

As can be seen from Table 4.1, some population groups are more strongly represented among the respondents than in the Dutch working population as a whole. This is particularly clear with regard to education level: more than half the respondents have completed an education at higher professional or university level, whereas in the population as a whole the figure is just over a third. In addition, the response group contains a relatively high proportion of 35-44 year-olds and over-55s, and people in waged employment are also slightly overrepresented.
The share of native Dutch people in the response group (55%) is likely to be considerably higher in practice than is shown in the table. No information on origin is available on a high proportion of the respondents, but based on the distribution by origin group among those for whom this information is known, it is likely that the share of non-Western migrants in the response group, in particular, lags well behind that in the working population as a whole.

The fact that our survey was conducted using an online research panel means that caution is called for in generalising the findings to the Dutch population as a whole. Participants in (online) research panels often differ from 'ordinary' Dutch citizens, as Table 4.1 illustrates. This applies not only for their demographic characteristics (more often well educated, more often native Dutch), but possibly also for their views and ideas. For this reason, the results were not re-weighted to the population as a whole; the findings merely represent the opinions of the participants in this study.

4.2 Quality of the data

As stated in section 4.1, a number of cognitive interviews were held before the fieldwork took place, in order to test the questionnaire for its intelligibility and unambiguity. Following these interviews, a number of points in the questionnaire were amended, after which it was used for the actual survey.

Pensions are a topic which most people rarely think about and of which they have little knowledge (Bemer et al. 2014; Intomart GfK 2015; Prast & Van Soest 2014). This may have had an adverse influence on the information obtained, for example because questions were interpreted incorrectly or because respondents simply 'entered something' without due consideration. It is however possible to obtain an idea in retrospect of the quality of the data. We consider four sources of information in more detail below:

– the time respondents spent completing the questionnaire;
– response patterns;
– perceived level of difficulty and relevance of the questionnaire;
– supplementary cognitive interviews.

The completion time

If a questionnaire is completed in a very short time, that is an indication that it has not been taken seriously. As this was an Internet survey, it was possible to record the start and finish time. The completion time can then be calculated by deducting one from the other.[5] A small proportion of the respondents (4%) were found to have completed the questionnaire on a different day from the day on which they began it, and were left out of this calculation. A further 3% completed the questionnaire in a time that deviated (upwards) from the average by more than one standard deviation. It may be that they interrupted completing the questionnaire, and this group were also left out of this analysis. The other respondents took an average of just under 14 minutes to complete the questionnaire. A small proportion of them (seven persons, just under 1%) were however found to have completed the questionnaire in just two to three minutes. Given the length of the questionnaire, it has to be assumed that they did not complete the questionnaire seriously, and they were therefore excluded from all further analyses. A further 84 respondents (just under 9%) completed the questionnaire in a time varying from just over three minutes to slightly less than seven minutes. The possibility that this group did not fill in the questionnaire seriously can also not be ruled out, and they were checked for 'suspect' response patterns.

Response patterns

Response patterns involve giving arbitrary answers to questionnaire items: regardless of the content of the question, respondents enter the same answer everywhere, or alternate between answers (e.g. alternately giving the lowest and highest score). This latter type of response pattern is relatively difficult to detect; here we focus on the first type. As stated, we devoted extra attention to the 84 respondents with a short completion time.

Table 4.2
Background characteristics of the respondents, total and excluding those with a short completion time, 2014 (in percentages)

	respondents total (n=1067)	respondents excl. short completion time (n=976)
sex		
male	55.1	55.3
female	44.9	44.7
age		
16-24 years	0.7	0.4
25-34 years	19.4	19.2
35-44 years	31.7	30.8
45-54 years	22.4	22.3
55-64 years	23.5	24.7
≥ 65 years	2.3	2.6
education level		
low (maximum vmbo*)	16.0	15.5
intermediate (havo/vwo, mbo*)	31.0	30.1
high (hbo, wo*)	53.0	54.4
Ethnic background		
native Dutch	54.8	54.5
Western migrant	4.1	4.2
non-Western migrant	0.7	0.6
unknown	40.4	40.7
labour market position		
waged employment	90.2	90.0
self-employed	9.6	9.7
other	0.3	0.3
standardised net monthly household income		
< 1,061 euros (< *modest but adequate* criterion	6.1	5.7
1,061 – 2,035 euros (< median income)	42.5	42.1
2,035 – 3,054 euro (< 1.5 x median income)	36.2	36.7
≥ 3,054 euro (≥ 1.5 x median income)	12.8	13.0
unknown	2.4	2.5

* vmbo = pre-vocational secondary education; havo = senior general secondary education; vwo = pre-university education; mbo = senior secondary vocational education; hbo = higher professional education; wo = university education.

Source: SCP (SiP'14)

The questionnaire contains ten blocks of 'matrix questions': a number of consecutive items relating to the same topic and with the same response options. In each of these blocks, respondents sometimes gave the same answer to all questions. However, this need not mean that they did not answer the questions seriously; it is for example perfectly possible that a respondent objects to the fact that some groups help pay for the pensions of others and that they are indifferent to which groups these are (see §5.1). It is also possible that people consider it very important to have the freedom to decide on some aspects of their pension themselves, regardless of which aspects those are (§5.2). Comparison of the responses of those with a short completion time with the responses of the total group of respondents shows that these response patterns occur to roughly the same degree in both groups. One exception are the response categories 'neutral' and 'don't know', which occur relatively much more frequently in the group with a short completion time than within the total group. This suggests that the short completion time of the former group stems from the fact that these respondents took the easy route: rather than seriously giving their opinion, they opted as standard for a neutral position or the 'don't know' answer. It was therefore decided that these 84 respondents should also be left out of consideration. The discussion of the findings in this chapter is thus based on the remaining 976 participants in the survey.[6] Table 4.2 shows that the composition of this group is almost identical to that of the original response group, with the exception that the share of young people is now slightly smaller and the share of highly educated people slightly larger.

Perceived level of difficulty and relevance of the questionnaire

At the end of the questionnaire, respondents were asked to indicate how difficult or easy they found the questions, whether the questions were clear for them and to what extent the questionnaire had given them food for thought. They could also indicate whether they considered the topic an interesting one and were given an opportunity to explain their view. This set of questions, which CentERdata includes as standard at the end of its questionnaires, provides information on how respondents experienced the questionnaire. Table 4.3 presents the results.

Table 4.3
Experiences of the respondents with the questionnaire, 2014 (in percentages)

	no (not at all)	neutral	yes (very much so)
Did you find it difficult to answer the questions?	45	21	34
Did you find the questions clear?	8	28	64
Did the questionnaire make you think?	26	37	38
Did you find the topic interesting?	25	35	40
Did you enjoy completing the questionnaire?	20	41	38

Source: SCP (SiP'14)

Table 4.3 shows that just over a third of respondents found it difficult to answer the questions, but that almost two-thirds felt the questions were clear. Further analysis shows that these are not complementary groups: almost half of those who had difficulty answering the questions (49%) regarded the questions as clear. The level of difficulty of the questionnaire evidently lies more in the topic under study than in the formulation of the items. There are also no indications that those who found questions difficult answered 'neutral' or 'don't know' more often than average.
The other three evaluation questions were each answered in the affirmative by just over a third of respondents: between 38% and 40% said the questionnaire had made them think, that they found the topic interesting and that they had enjoyed answering the questions. In all three cases, roughly a quarter of respondents held the opposite view.
The respondents were also given an opportunity to add further comments about the questionnaire or the study; 38 of them did so. Fifteen respondents pointed out one or more (assumed) errors in the questionnaire or instances where it was not clear, or to the lack of a particular response category which meant they were not able to answer the question properly. Eleven others found the questions asked irrelevant, because they felt they were based too much on the existing system with (too many) pension funds or took too little account of the situation of self-employed people.

The other comments varied from a general – mostly pessimistic – view about the future of pensions to a complaint that respondents could not see whilst completing the questionnaire how far they had progressed through it.

Supplementary cognitive interviews

The opinions of the respondents about the questionnaire, the information about the time taken to complete it and the response patterns indicate that the questionnaire was completed without problems in the vast majority of cases. However, this offers no guarantee that the survey questions were interpreted in the way intended. It was therefore decided to conduct a further four cognitive interviews, so that we were able to form an opinion on this (retrospectively). These interviews were held on 9 February 2015 by the market research bureau TNS Nipo. As in the first round of cognitive interviews, the four participants differed in terms of sex (two men, two women), education level (three with a low education level and one with a high education level) and labour market position (three waged employees and one self-employed worker). In contrast to the first round, the interviews were not conducted in the respondents' homes, but on site at the research bureau. In line with earlier research (Bemer et al. 2014), it emerged from the interviews that pensions are a theme which people rarely or never think about and about which they have scant knowledge. As a consequence, people found the survey 'difficult' but also 'interesting' and that it 'made them think'. In discussing the findings in chapter 5, we will where useful and necessary use quotes to indicate the associations made by the interviewees regarding the questionnaire. These quotes are not intended to substantiate or supplement the survey results, but serve merely to provide an impression of how the questions were interpreted. Any misinterpretations of the terms used in the survey are also discussed.

Notes

1 The proportion of low and highly educated people does not correspond with the proportions in the Dutch working population, nor with the response group. As the purpose of the cognitive interviews was to investigate whether the questions could be understood by everyone, it was decided to approach relatively more people with a low education level.

2 This number includes households and young children who are not members of the study panel.

3 Teppa and Vis (2012) provide an overview of the methodological aspects of the CentERpanel. Among other things they look at the recruitment of panel members, response rates and representativeness.

4 Although people aged over 65 can of course also have a view on the themes discussed in this chapter, they are generally involved only as 'users' of a pension fund. For this study, it is mainly the views of people who are still saving towards their pension that are relevant, and people aged over 65 were therefore not approached as respondents.

5 The finishing time, and therefore the completion time, is only known for those who filled in the questionnaire completely. All findings regarding the completion time are therefore based on the 1,036 respondents who meet this criterion.

6 This number includes the 31 persons who partly completed the questionnaire.

5 Opinions on supplementary pensions

The questionnaire submitted to respondents naturally contained several questions on solidarity, but also covered themes such as choice and loyalty. In this chapter we first discuss respondents' opinions on solidarity and redistribution (§5.1) and on choice (§5.2).
We then look at which choices workers would make if their pension fund was in a precarious financial position and they had the opportunity to exit from the fund (§5.3). We also discuss the population groups with which people would prefer to share or not to share risks in a pension fund (§5.4), and describe people's views about their own pension (§5.5). Finally, we investigate the extent to which characteristics such as age, education level and income are related to opinions on solidarity (§5.6). Section 5.7 ends the chapter with a number of conclusions.

5.1 Membership of a pension fund: views on solidarity and redistribution

Since the aim of this study was to provide an insight into people's views on supplementary pensions, pension funds occupied a central place in the questionnaire. The first question put to respondents accordingly concerned their own experiences with pension funds. A large majority of the panel members questioned (84%) reported that they were members of a pension fund through their current employer, with a further 10% being members through a previous employer. The remaining 6% had no personal experience with pension funds, either because their current or former employers were not affiliated to one or because they had always been self-employed (both 3%).
Those with experience of pension funds through their present or former employment were asked how they view saving for a supplementary pension with a pension fund; do they see it as their own pension pot with money for later, or as a shared pot from which their pension will be paid when they retire?[1] The results show that 42% of the respondents concerned chose the first answer, while the (58%) said they regarded it as a shared pot of money.[2]

To gain a first impression of the importance people attach to solidarity within a pension fund, respondents were asked about this right at the start of the questionnaire. The same introduction was presented to both employees and self-employed respondents:

> *Pension funds collect contributions. They manage and invest the contributions and pay the pensions of pension fund members. They operate on the basis of solidarity between the members of the fund: all members are in the same boat.*

Those in waged employment were then asked how important they consider solidarity within a pension fund to be; self-employed respondents were asked whether, if it were possible, they would enrol in such a pension fund.

Participants in the cognitive interviews were asked about what thoughts the term 'solidarity' evokes. The answers indicate that this term has positive associations:

> *'All in the same boat' sounds horribly negative. Solidarity is a good thing: sharing risks with each other, and also sharing the benefits. I would choose it again, but now I'm nearly retired I'm better off saving for it myself.* (man, 62 years, highly educated, self-employed)
>
> *Solidarity means good cooperation, that it is fair.* (woman, 43 years, low-educated, employee)
>
> *Everyone who's in the fund receives the same and pays the same. It's a kind of equality.* (man, 49 years, low-educated, employee)
>
> *Hard to explain. It means you all do the same and receive the same.* (woman, 56 years, low-educated, employee)

A majority of employees said they considered solidarity within a pension fund to be important or very important (63%). Only 7% described it as unimportant or very unimportant, while a quarter adopted a neutral stance and the remaining 4% did not know. The solidarity between members of a pension fund is much less important for self-employed workers, as borne out by the low percentage who would 'definitely' enrol with such a pension fund if it were possible (8%). By contrast, 17% of this group said they would 'definitely not' do this; the rest answered that they 'might' do so (66%) or did not know (8%).
Both employees and self-employed respondents were asked for the main reason for their opinion. The number of self-employed respondents who would 'definitely' or 'definitely not' choose to enrol in a pension fund is however too small to provide a reliable picture of their motives. Table 5.1 presents the figures for the 63% of employees who consider solidarity important; Table 5.2 shows the reasons for 7% of employees who hold the opposite opinion.

Table 5.1
Solidarity within a pension fund is important/very important, by main reason that employees think this, 2014 (in percentages)

	employees (n=550)
because everyone should have a good pension	51
because it's better for me if I can rely on the solidarity of others	6
because the investment risks are better spread	20
because people who do the same work should receive the same pension	11
because that enables the costs to be kept down	11
other reason	2

Source: SCP (SiP'14)

Table 5.1 shows that just over half the employees who consider solidarity to be important or very important give as a reason that everyone should have a good pension. A further 11% feel that people with an equivalent employment history should also receive the same pension. This appears to suggest that, for these respondents, solidarity has to do with equality and fairness. Spreading the investment risks and keeping the costs low – explicitly economic arguments – are cited by 20% and 11%, respectively.

Table 5.2
Solidarity within a pension fund is unimportant/very unimportant, by main reason that employees think this, 2014 (in percentages)

	employees (n=64)
a supplementary pension is something you save up for yourself	66
everyone already receives a state pension	3
because solidarity means I'm probably paying in more than I will get back	20
solidarity is an old-fashioned idea	3
because it makes pensions unnecessarily expensive	5
other reason	3

Source: SCP (SiP'14)

For almost two-thirds of employees who attach little or no importance to solidarity within pension funds, this view is based mainly on the idea that a supplementary pension is something that everyone should build for themselves. In addition, 20% of this group think they probably pay more in than they will receive back: solidarity means that they help pay for the pensions of others (Table 5.2).

Respondents were asked to read eight statements about the consequences of membership of a pension fund: How do respondents feel their membership affects aspects such as the contributions they have to pay, the amount of pension they will receive and the risks to which they are exposed? Table 5.3 shows what percentage of the panel members regard the statements as 'true' or 'not true'.[3]

Table 5.3
Membership of a pension fund means…, 2014 (in percentages)

	(completely) true	neutral	(completely) untrue	don't know
that I contribute to the pensions of others	71	18	8	3
that I pay lower contributions because collective pension saving is cheaper than individual saving	56	22	15	8
that I don't have to think about how much I need to put aside for my retirement	59	16	23	2
a lower pension because a pension fund achieves lower returns than if I were to invest myself	18	37	31	14
less risk, because poor investment results are spread across all members	57	24	13	7
that the contributions I pay might be more than the pension I will receive back later	51	26	12	11
that I can't decide for myself whether and how much to save for my retirement	58	21	17	4
that I'm helping people with a low pension	28	41	19	12

Source: SCP (SiP'14)

As Table 5.3 shows, a majority agree that most statements are true. For example, just over 70% of respondents think that membership of a pension fund means contributing to the pensions of others. And almost 60% believe that membership means they do not have to concern themselves with providing for their retirement, although an almost equally large group feel this means that they are unable to decide for themselves how much to set aside for their retirement.[4] A similar figure of just under 60% also believe that membership of a pension fund means members run less risk and pay lower contributions, though 51% think the contributions they pay may be higher than what they will receive back in the

form of a pension.[5] Finally, a minority think that membership of a pension fund means they are helping people with a low pension, or that they will receive a lower pension than if they were to invest themselves.
It can also be seen from the table that people are less certain about some aspects and therefore choose the neutral option. This applies in particular for helping people with a low pension and the expected return (41% and 37%, respectively, neutral responses). The percentage of respondents who say they do not know whether the statement is true or untrue is also fairly large for these statements.

One of the participants in the cognitive interviews was found to have difficulty with the terms 'members' ('What do they mean by that?') And 'return' ('Is that the same thing as interest?'). According to their own report, this was due partly to nervousness, but the respondent's answers also indicated that she did not have a clear grasp of how the pension system operates. For example, she disagreed with the statement that members of a pension fund pay lower contributions because they save collectively, based on the consideration that, 'some people can save more than others' (woman, 43 years, low-educated, employee). From the remainder of the interview it was apparent that this person did understand that her employer was putting money aside for her pension, but that she did not associate this with a pension fund which then invests this money and ultimately pays her pension.

Among other things, solidarity within pension funds means that everyone pays the same contribution percentage. This works out well for some groups, while others pay relatively too much; they 'subsidise' those who pay relatively too little (see chapter 2). Respondents were asked for their views on this. Table 5.4 presents the results.
A large number of respondents expressed a neutral opinion on the fact that some population groups benefit more than others from the solidarity that is inherent in the system. This applies particularly for the fact that some people live to a very great age and therefore benefit for a long time from a pension for which they have paid the same contributions as someone who dies shortly after retirement (60% 'neutral'). As a corollary to this, more than half the respondents (54%) expressed a neutral view on the fact that men pay relatively too much in contributions and therefore help pay for the pensions of women members.

Table 5.4
Opinions on 'subsidy flows' between population groups within a pension fund, 2014 (in percentages)

	(very) bad thing	neutral	(very) good thing	don't know
In a pension fund …				
healthy people help pay for the pensions of people with an occupational disability	11	29	56	5
men pay relatively too much in contributions, women too little	20	54	17	9
some generations contribute to building up a buffer, although it is not certain that they will benefit from it	48	32	16	4
low-skilled people help pay for the pensions of highly skilled people	29	44	19	8
younger employees pay relatively too much, older employees too little	36	41	13	9
people who die young pay too much, people who live for a long time too little	11	60	23	7
people with temporary contracts help pay for the pensions of people with permanent jobs	21	43	27	10
people with a low income help pay for the pensions of people with a higher income	33	43	17	8

Source: SCP (SiP'14)

It emerged from the cognitive interviews that these responses are based on different arguments. One person, for example, stated that …

> *… It could be fairer, but then you would be undermining the solidarity. On the one hand, women have always had more free time, so they already had that advantage.* (man, 62 years, highly educated, self-employed)

Another felt that ...

> *... You can't get away from that. It would be very hard to do anything about it, partly because men sometimes live for a long time, too.* (man, 49 years, low-educated, employee)

Both women said they did not know whether men pay proportionally too much, but did understand intuitively that this has to do with life expectancy.

> *You can't say for certain whether men live shorter or longer than women.* (woman, 43 years, low-educated, employee)

> *It's a good thing that everyone pays the same. No one knows in advance how long they will live. If I die before I retire, I'll also have paid too much. That can happen to a man, but also to a woman.* (woman, 56 years, low-educated, employee)

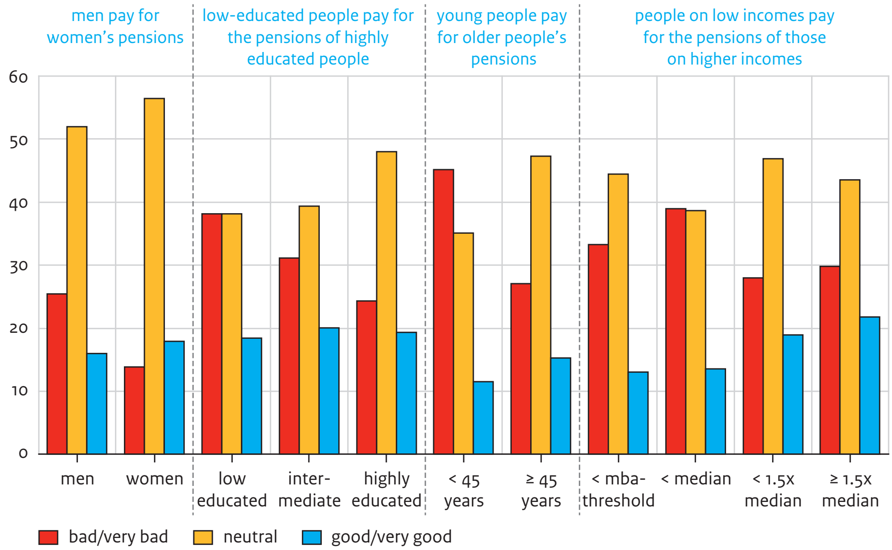
In a number of cases, respondents had more pronounced views. For example, 48% felt it was a bad or very bad thing that some generations of employees contribute to building up a buffer while it is not certain that they themselves will benefit from it. And around a third took a negative view of the fact that younger employees pay relatively too much in pension contributions and older employees too little, and that people with a low income help pay for the pensions of people with a higher income. On the other hand, more than half (56%) think it is a good thing that healthy people help pay towards the pensions of people who are incapacitated for work. Earlier research by Berden and Kok (2013) suggests that the thinking here is that anyone – including the respondent themselves – can become incapacitated for work. Or, as one participant in the cognitive interviews put it:

> *You don't ask to become unfit for work.* (woman, 56 years, low-educated, employee)

Where possible, we plotted these views on solidarity and redistribution against the group to which the respondents themselves belonged (Figure 5.1). As expected, those who are themselves part of a group that helps pay for the pensions of others take a more negative view of this. Men, people with a low education level, workers aged up to 45[6] and people with an income below the median more often say they regard this as a bad or very bad thing than women, people with a high education level, people aged over 45 and workers with a higher income.[7] It is also striking that there is virtually no difference between the percentages who describe this as a good or a very good thing. For example, 18% of women think it is good that men help pay for the pensions of women, but this also applies for 16% of men. Slightly bigger differences are found between the different age groups and income categories, but these are also not statistically significant.

Figure 5.1

Opinions on 'subsidy flows' within pension funds, by a number of background characteristics, 2014 (in percentages)[a, b]



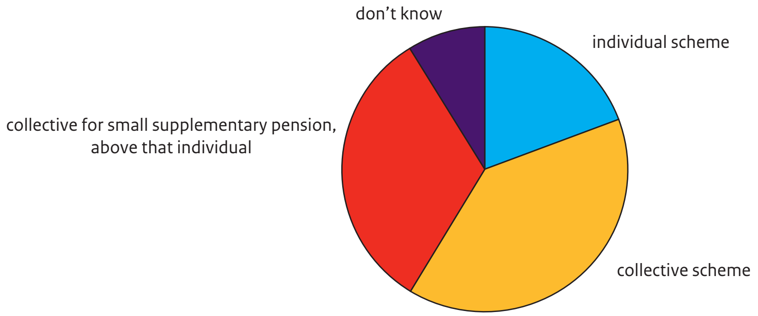
a The shares of respondents answering 'don't know' are not presented here.
b See note 10 for an explanation of the *mba* (modest but adequate) threshold.

Source: SCP (SiP'14)

To what extent opinions on solidarity stem from self-interest or from a sense of moral duty (see chapter 1) was investigated by asking about the willingness to pay higher contributions. As in the earlier study by Van Oorschot (2000), self-interest proved to be a much more common motive than moral duty: 59% of respondents said they would only be willing to pay more contributions if this meant they would receive a bigger pension. And more than a quarter (28%) would be unwilling to pay any more contributions at all than they do at present, while only 13% would be willing to pay higher contributions in order to help vulnerable groups in society.

Respondents were asked to indicate what they would do if they went to work for a different employer[8] and were able to choose between the following three pension arrangements: an individual scheme in which everyone saves for their own pension; a collective scheme in which good and bad investment results are spread across all members; or a scheme in which they save in a collective fund for a small supplementary pension and on top of that pay into an individual scheme. Figure 5.2 illustrates the respondents' preferences.

Figure 5.2
Choice of individual, collective or mixed pension scheme, 2014 (in percentages)



Source: SCP (SiP'14)

Most respondents (39%) prefer for a fully collective scheme, closely followed by a group who would prefer a limited collective scheme combined with an individual scheme (33%). Almost one in five respondents (19%) would prefer an entirely individual scheme, while the remaining 9% say they do not know. The respondent's own labour market position makes no difference here: people in waged employment do not differ significantly in their choice from self-employed respondents.

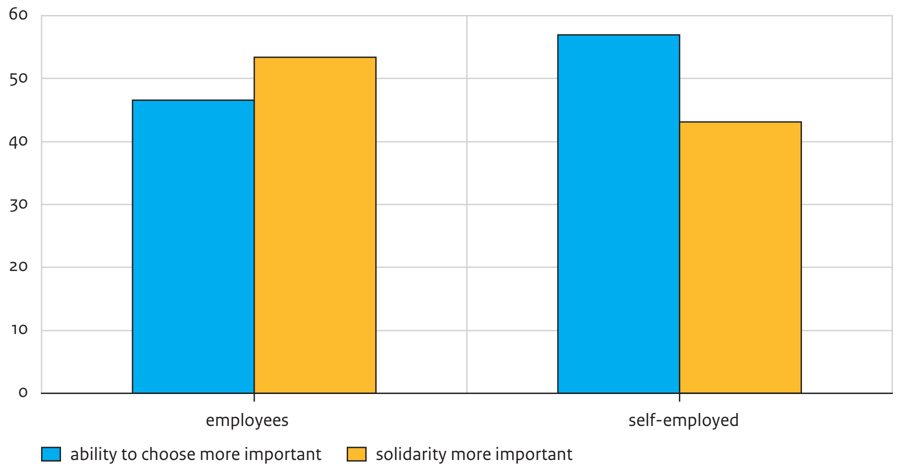
5.2 Solidarity or choice?

One of the questions put to respondents related to the choice between solidarity within a pension fund and being able to choose their own pension fund. This question was formulated as follows for waged employees:

> *Employees currently save for a supplementary pension with the pension fund to which their employer is affiliated. If people were able to choose their own pension fund, the solidarity would be less than in the present system. This is because people would then also be able to choose to exit the pension fund, for example if the pension fund was doing badly.*

Respondents were then asked to indicate whether they considered solidarity within a pension fund or being able to choose their own pension fund more important. Just over half of employees (53%) expressed a preference for solidarity (see Figure 5.3). Among self-employed respondents, by contrast, there were more (57%) who regarded being able to choose their own pension fund as more important, though the difference compared with employees is not statistically significant. The self-employed respondents also had the option of stating that they did not wish to enrol in a pension fund at all and thus reject both alternatives. If we include a this response option in the calculation, 39% of self-employed respondents prefer the option of being able to choose and 30% prefer solidarity. The remaining self-employed respondents (32%) say they do not favour either option because they do not wish to be members of a pension fund.

Figure 5.3
Ability to choose own pension fund or solidarity within pension fund, employees and self-employed, 2014 (in percentages)



Source: SCP (SiP'14)

When asked if they understood why solidarity would reduce if people were able to choose a pension fund for themselves, the participants in the cognitive interviews gave the following reactions:

> *You're then choosing more on the basis of your individual situation, being more calculating. That can work to the disadvantage of others.* (man, 62 years, highly educated, self-employed)

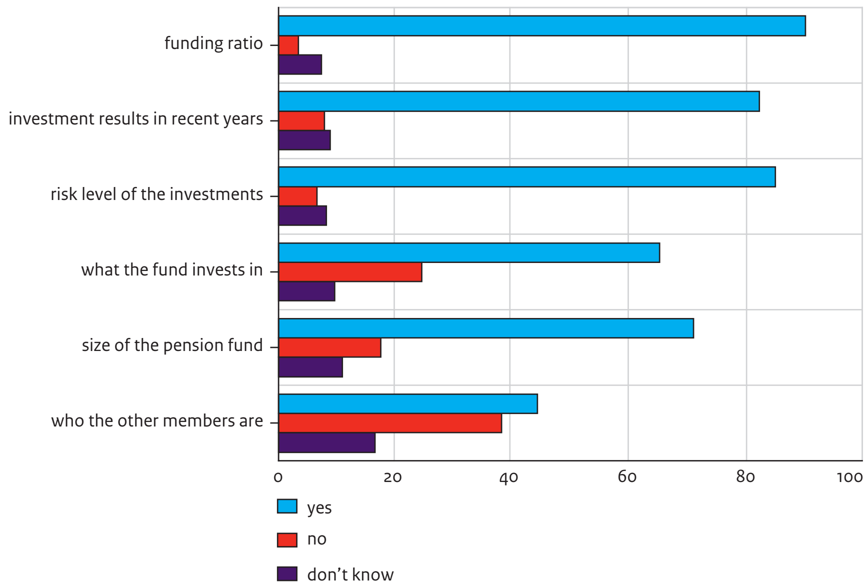
> *If too many people leave the pension fund, the pension pot will become smaller and smaller.* (woman, 43 years, low-educated, employee)

> *If you can leave, one person pays for a pension and the other doesn't. There's then less money in the pot and so less to distribute.* (woman, 56 years, low-educated, employee)

One participant stated that they did not properly understand why solidarity would reduce if they were able to choose a pension fund for themselves.

If people were able to choose their own pension fund, there are several aspects they could take into account when doing so. Respondents were asked what things they would look at when choosing a pension fund. As Figure 5.4 shows, a large majority (90%) say they would look at the funding ratio, which is an indicator of the financial health of the pension fund. This is not surprising, given the many reports on the (inadequate) funding ratios of pension funds in recent years. People also consider the investments made by the pension fund important: 85% of respondents say they would take note of the level of risk with which pension fund assets are invested, while 82% would consider the recent investment results. The content of the investment portfolio is considered less important, as is the size of the pension fund (cited by 65% and 71% of respondents, respectively). Who the other members of the fund are is something that relatively few respondents (45%) would take into account when choosing a pension fund.

Figure 5.4
Factors considered when choosing a pension fund, 2014 (in percentages)



Source: SCP (SiP'14)

The Netherlands Interdisciplinary Demographic Institute (NIDI) has carried out earlier research on choice in pensions (Van Dalen & Henkens 2014), conducting an online survey in June 2014, again via CentERdata, among the same group of working people as in our study. Half the respondents answered questions on things such as how important it is for them that a pension fund organises certain things automatically for them. The other respondents were given a variant of this question set and were asked to indicate how much importance they attach to the freedom to arrange these things themselves. Both sets of questions were resubmitted to the respondents in the present study. Those who answered the questions on the importance of choice in the NIDI survey were now asked to answer the questions about things being organised automatically.[9] The questions on the importance of choice, supplemented with a number of extra questions, were put to all respondents. The findings are presented in Tables 5.5 and 5.6.

Table 5.5
How important is it that the following aspects are organised for you automatically, 2014 (in percentages)[a]

	(very) unimportant	neutral	(very) important
how much of my salary is invested (and therefore saved) for my pension	8	24	68
the fact that I cannot draw from my pension pot for purposes other than pension	15	26	59
the fact that I have a standard pension package (including retirement pension, disability pension or surviving dependent's pension)	7	25	69
the fact that I am automatically enrolled in my employer's pension fund	21	31	48
the amount of risk with which my pension savings are invested	6	27	68

a These questions were only put to respondents who answered the questions about choice in the earlier study by Van Dalen and Henkens (2014) (296 persons), and to half (randomly selected) of those who only took part in the present study (192 persons).

Source: SCP (SiP'14)

Table 5.5 shows that a high proportion of respondents regard it as important or very important that certain aspects are arranged for them automatically by the pension fund. This applies particularly for the level of contributions, the composition of the pension package and the risk level of the investments: almost 70% would like all three of these aspects to be taken care of automatically. The percentages who think it is important that the timing of when they can access their pension pot or in which pension fund they are enrolled are also arranged for them are lower (59% and 48%, respectively); 15% and 21%, respectively, consider these two aspects to be unimportant or very unimportant.

Table 5.6
How important is it to have the freedom to choose the following aspects, 2014 (in percentages)[a]

	(very) unimportant	neutral	(very) important
that I contribute (and thus save) a large or small percentage of my salary for my pension	10	34	56
the ability to draw part of the money I have saved through my pension fund early for purposes other than pension	40	29	31
the composition of my pension package (such as retirement pension, disability pension or surviving dependent's pension)	7	32	61
which pension fund I am enrolled with	11	44	46
the amount of risk with which my pension savings are invested	3	23	74
the assets in which the pension fund invests (e.g. no arms manufacturers or oil companies)	12	28	60
whether I can save for early retirement	6	23	71
the fact that I will receive more pension initially and less as I grow older	10	48	43

a These questions were put to all respondents. The first five items were also included in the earlier study by Van Dalen and Henkens (2014).

Source: SCP (SiP'14)

Where Table 5.5 shows that a high proportion of respondents think it important that pension funds take care of a number of aspects for them automatically, Table 5.6 reveals that there are also many respondents who consider it important to have the freedom to determine these things for themselves. Almost three-quarters (74%) would like to be able to

choose the level of risk with which the pension fund assets are invested, or to save for early retirement (71%). The level of contributions, the composition of the pension package and the assets in which the pension fund invests are also aspects where people might like to be able to exercise choice (cited by between 56% and 61%).
If we look only at the 533 respondents who answered the question in the earlier survey on how important they think it is that these aspects are organised automatically (see Table 5.5), we find virtually identical outcomes: a majority of this subgroup also consider it important or very important to be able to decide for themselves the level of risk with which the pension fund assets are invested (74%), what is contained in the pension package (62%) and what percentage of their salary goes towards their pension (56%). It is not known whether people were aware that immediately prior to this, respondents had been asked how important they thought it was that these same aspects were organised automatically, nor whether this had an impact. None of the participants in the cognitive interviews made any comment on this.

The fact that people attach importance to standard schemes whilst at the same time valuing the freedom to decide things for themselves confirms the earlier findings of Van Dalen and Hen(2014). It also confirms the conclusion that people regard choice very much as a good thing, but that this does not mean they wish to exercise that choice. Many people regard choice as problematic and will in practice prefer standard options (see also Van Rooij 2015; Van Soest 2015).

When asked which options they might choose, the favourite choice was saving for early retirement (Table 5.7); almost two-thirds of respondents said they would do this if it were possible. Just under 60% would use the opportunity to insure continued pension accrual during periods of incapacity for work or unemployment, while nearly half the respondents would like control over the content of the investment portfolio. The percentages who would choose some of the other options are smaller, but not inconsiderable: 45% see something in the option of receiving a higher pension for a number of years followed by a lower pension, while more than a third would use the possibility of building up a bigger pension. People are much more reticent about the more risky options: only 13% of respondents would choose investments with a higher risk, and 16% say they would like to withdraw the money in their pension pot to spend as they see fit; 70% and 66%, respectively would not choose these options.

Table 5.7
Would exercise choice on the following options, 2014 (in percentages)[a]

	yes	no	don't know
building up a bigger pension; that would mean higher contributions	35	41	23
building up a smaller pension; that would give you more to spend now	21	61	18
selecting the investments yourself (e.g. no arms manufacturers)	49	35	16
taking more risk with the investments, with the chance of a higher pension	13	70	17
taking less risk with the investments, with the chance of a lower pension	30	45	25
insuring continued pension accrual during periods of incapacity for work	58	21	20
insuring continued pension accrual during periods of unemployment	58	24	19
saving for early retirement	65	21	14
receiving a bigger pension at first and slightly less as I grow older	44	33	23
withdrawing all the money to spend as I wish	16	66	17

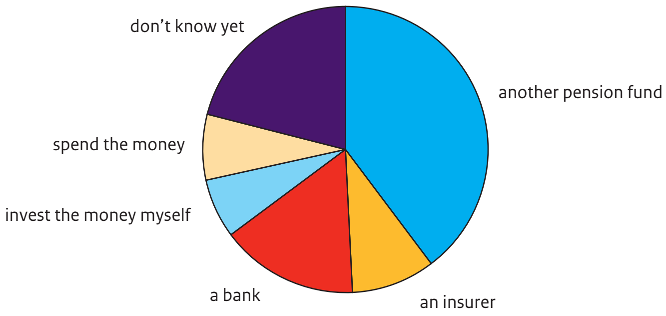
Source: scp (SiP'14)

5.3 Loyalty to the pension fund

As discussed in chapter 2, membership of the employer's pension fund is in principle compulsory in the Netherlands, creating enforced solidarity between members. It is relevant in this perspective to investigate what employees would do if there were an exit option. Respondents were asked to consider a scenario in which they were members of a pension fund that was in a precarious financial position, with a funding shortfall and the prospect that present or future pensions would be cut. However, the pension fund offers members the ability to leave and take their accrued pension rights with them. Just over half the respondents (55%) say they would leave the pension fund in that situation.
They give as the main reason that they would want to take their money out in order to avoid falling behind even further (cited by 43% of those who would leave). A second frequently cited reason is that they believe that other pension funds or insurers would deliver better results (reported by 34%). Lack of confidence in the pension fund follows in a rather distant third place (10%), while feeling a lack of connection with the other members is cited as an important reason by 4% of those who would leave.
Figure 5.5 shows that those who say they would leave the pension fund would in most cases (40%) choose to switch to another pension fund. A bank or insurer would be the most likely choice for 16% and 10% of leavers, respectively, while investing the money themselves or spending it on something like a round-the-world trip or to pay off a mort-

gage are both cited by around 7%. Finally, just over a fifth say they do not know what they would do with the money.

Figure 5.5
What people would do with the money on leaving a pension fund, 2014 (in percentages)



Source: SCP (SiP'14)

While slightly more than half the respondents would opt to leave the poorly performing pension fund, just under half (45%) would stay. The most common reasons given for this are the expectation that the situation will have improved again after a few years (cited by 29% of those who would stay), that the situation would be at least as bad at other pension funds or insurers (reported by 26%), and not knowing whether switching is wise (cited by 21%). The motive of not having to deal with the red tape of switching or that the respondent trusts the pension fund is cited by 8% and 6% of respondents, respectively, while 4% explicitly mention solidarity as a reason ("we're all in the same boat").

The participants in the cognitive interviews were asked what they thought the phrase 'the funding ratio is too low' as posed in the question meant. All four proved to have a – more or less – correct understanding of the term:

> *Your pension isn't index-linked.* (man, 62 years, highly educated, self-employed)

> *Not enough money to cover me later when I retire.* (woman, 43 years, low-educated, employee)

> *That they have a certain amount of money. They have to hold more than 105%.* (man, 49 years, low-educated, employee)

> *The pension, they have less money.* (woman, 56 years, low-educated, employee)

5.4 With whom do people want to share risks?

To investigate which groups people are willing to share risks with, respondents were asked what kind of fellow-members they would like to be in the pension fund with. Table 5.8 shows that many people do not really mind who the other members are. In particular the region, sex and ethnic background of other members are irrelevant for a clear majority of around 80% of respondents. To the extent that there is a preference for fellow-members, it is for employees from the respondent's own sector or company, or for people who are in the same occupation. The share of respondents who would like to be in a pension fund with these groups varies between 38% and 43%. Finally, Table 5.8 shows that there are no groups which encounter strong resistance; the only categories which slightly more respondents (15% and 11%, respectively) would rather not have as fellow-members of a pension fund are self-employed people and people of their own age.

Table 5.8

Type of members that respondents would prefer to be in a pension fund with, 2014 (in percentages)

	yes, I would like that	I don't mind	no, I wouldn't like that	don't know
As far as possible I would like to be in a pension fund with ...				
employees from my company	38	51	2	9
self-employed people	10	64	15	12
members with the same occupation as me	40	52	2	7
members from the same sector as me	43	49	2	7
members who live in the same region as me	6	81	4	9
members who are the same sex as me	8	80	4	8
members who are roughly the same age as me	15	66	11	8
members with the same education level as me	24	65	3	8
members with the same ethnic background as me	7	78	7	8

Source: SCP (SiP'14)

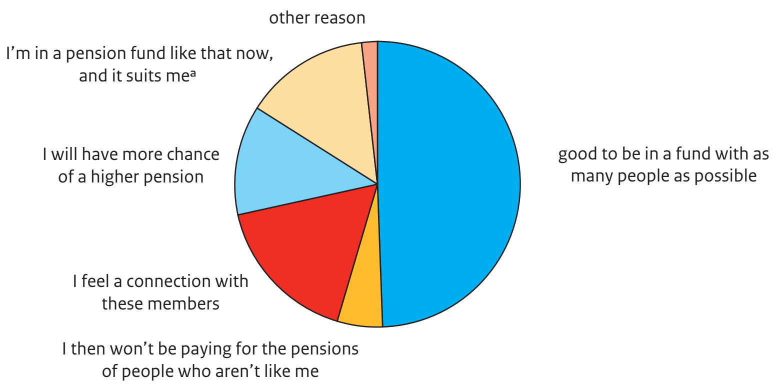
To the extent that the participants in the cognitive interviews had a preference for who they would like as fellow-members of a pension fund, that preference was based on the motive that 'it makes the fund stronger; more money is invested in the fund and that makes the pension pot bigger' (woman, 56 years, low-educated, employee). One of the participants said explicitly that they did not know how to answer this set of questions:

> *Am I expected to have the expertise to decide whether it's to my advantage? Or whether it's ethically or morally better? I can't judge.* (man, 62 years, highly educated, self-employed)

Those who indicated that they would or would not want members of one or more groups to be in the same pension fund were asked what the most important reason for this was. Figures 5.6 and 5.7 show the results.

Figure 5.6

Main reason why people want to be in a pension fund with certain group(s), 2014 (in percentages)

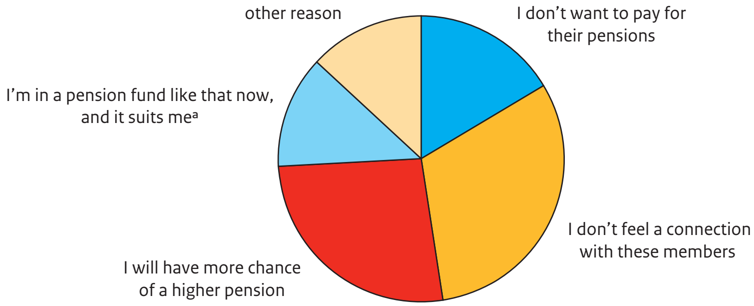


a This response option was only presented to employees.

Source: SCP (SiP'14)

Figure 5.6 shows that the group size is an important reason for expressing a preference for a given group of fellow-members in a pension fund. Virtually half of those who expressed a preference for one or more groups as fellow-members of a pension fund think it is a good thing if the fund represents as many people as possible. This is followed at some distance by feeling a connection with the group in question, the respondent themselves being in such a pension fund at the moment and believing they have more chance of a higher pension (each cited by between 12% and 17%). A small group of respondents (5%) based their preference for certain groups of fellow-members on the idea that they would then not be paying towards the pensions of people who are not like them.

Figure 5.7
Main reason why people do not want to be in a pension fund with certain group(s), 2014 (in percentages)



a This response option was only presented to employees.

Source: SCP (SiP'14)

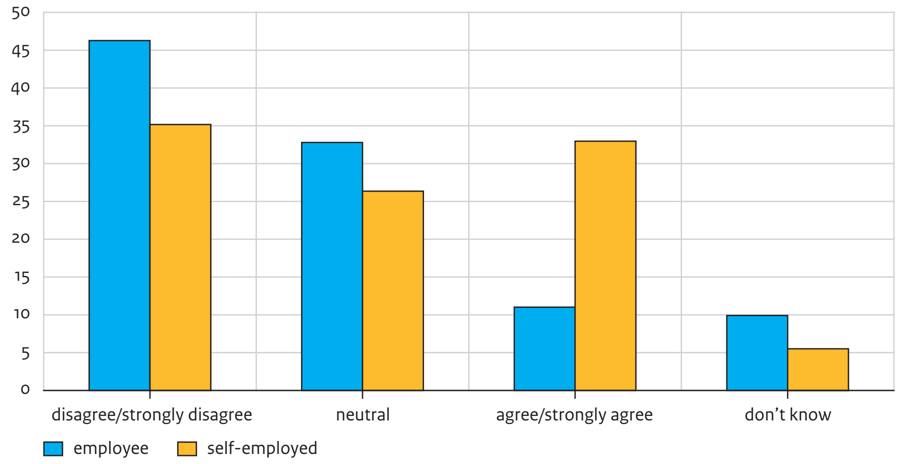
The reasons given for not wanting to be in a pension fund with certain groups are more diverse. It can be seen from Figure 5.7 that not feeling a connection with a particular group is the most frequently given motivation (31% of the respondents concerned), closely followed by the respondent thinking they will have more chance of a higher pension (27%). Not wishing to pay towards the pension of those fellow-members and currently being a member of the pension fund that does not include those groups are given as reasons by 16% and 13% of respondents, respectively.

5.5 Opinion on own pension scheme

We have described above how respondents feel about membership of a pension fund, including the importance of solidarity and the desire for certain types of choice. Thus far, however, people's opinions about their own pension scheme have not been discussed. Generally speaking, those opinions turn out to be fairly negative. When asked to respond to the statement, 'I currently have sufficient influence over my own pension', 45% of respondents disagree; almost a third (32%) give a neutral response, while 15% agree with the statement. The remaining 9% say they do not know the answer. Figure 5.8 shows that the opinions of employees and self-employed workers differ: self-employed respondents think they have sufficient influence over their pension more often than employees, though once again they are in the minority (33%).

Figure 5.8

Reactions to the statement: 'I currently have enough influence over my own pension', employees and self-employed persons, 2014 (in percentages)

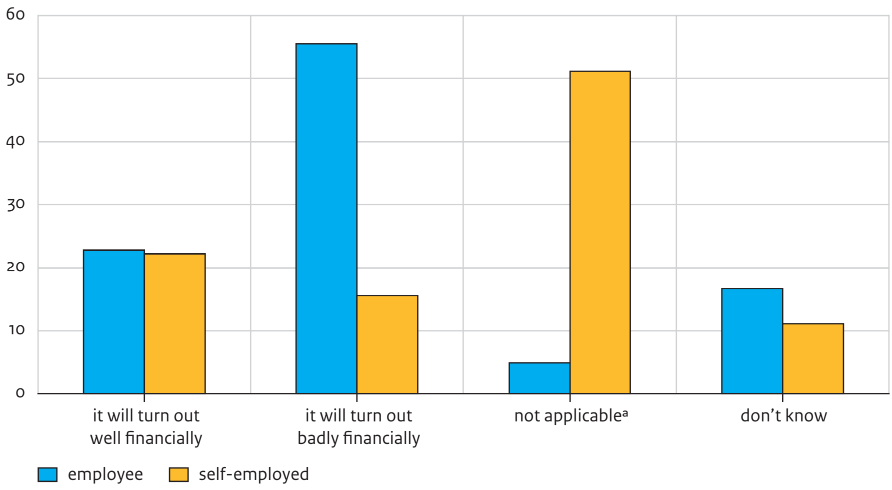


Source: SCP (SiP'14)

Respondents were also asked to indicate whether they expect membership of their pension fund to turn out well or badly for them financially. These responses, too, reveal a fairly negative attitude by respondents towards their own pension scheme: just over half (52%) think they will receive a lower pension than the contributions they have paid. Figure 5.9 shows that the respondent's labour market position plays a role here, once again in favour of self-employed workers. On the other hand, it must be borne in mind that 51% of this group report that they are not saving for a pension at all.

Figure 5.9

Expectation regarding membership of a pension fund, employees and self-employed persons, 2014 (in percentages)



a Employees: neither; my employer isn't affiliated to a pension fund'; self-employed: 'neither; I'm not saving for a pension'.

Source: SCP (SiP'14)

5.6 Who still wants solidarity?

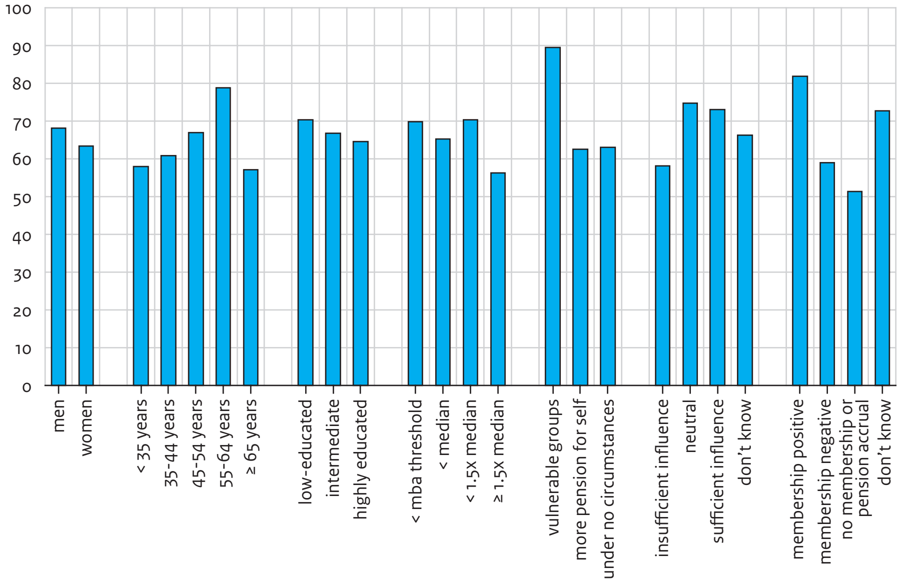
In this chapter we have investigated how respondents in this survey feel about solidarity in supplementary pensions, what membership of a pension fund entails, their loyalty to pension funds when faced with a funding shortfall, and their wishes as regards choice in their pensions. Generally speaking, the findings presented relate to the total response group, or – where relevant – compare employees with self-employed workers. Opinions on 'subsidy flows' within the pension system are the only aspect for which we looked (broadly) at characteristics such as age, sex and income. It is however quite plausible that these and other background characteristics play a role in people's opinions about pensions and pension funds. For example, as indicated in chapter 3, young people may feel they lose out in the present system because population ageing means they will have to continue working for longer and will receive a lower pension. There is therefore a possibility that they would prefer an individual pension scheme over membership of a collective system. Highly educated people and sole traders are also often assumed to be supporters of individual schemes, though in their case this is attributed mainly to their desire for choice.

Whether the assumed associations between characteristics such as age and education level on the one hand and views on solidarity and collectivity within the pension system are found in practice is investigated here for three outcome variables. Figures 5.10 to 5.12 inclusive present the results for respondents' general views on the importance of solidarity within supplementary pensions, the degree to which respondents prefer the ability to choose their own pension fund over solidarity and the preference for a collective pension scheme over a wholly or partly individual scheme.
The relationships between background characteristics and opinions as portrayed in the figures do not take account of the fact that some characteristics are also associated with each other. For example, older people generally have a lower education level ($r = -0.25$), and a low education level is often associated with a low income ($r = 0.23$). To control for such mutual influences, we also carried out multivariate regression analyses for each of the three variables concerned. The results are discussed briefly below.

Figure 5.10 shows that those who consider solidarity within the pension system to be important or very important are found mainly among respondents who are willing to pay more pension contributions if this will help vulnerable groups in society. They are followed at a short distance by respondents who think membership of their pension fund will turn out well for them financially, and by 55-64 year-olds. Between 80% and 90% of these three groups consider solidarity important. Respondents who feel they have sufficient influence over their own pension or who express a neutral view on this also relatively often consider solidarity important (73-75%). We found no differences based on sex, education level or disposable household income.

After controlling for the mutual relationships between background characteristics, the differences between groups remain. It is of course possible that the relationships found operate in the opposite direction and that someone's opinion about the importance of solidarity influences their opinion on how much influence they have over their own pension, for example.

Figure 5.10
'Solidarity within a pension fund is important/very important', by a number of background characteristics, employees, 2014 (in percentages)[a, b]

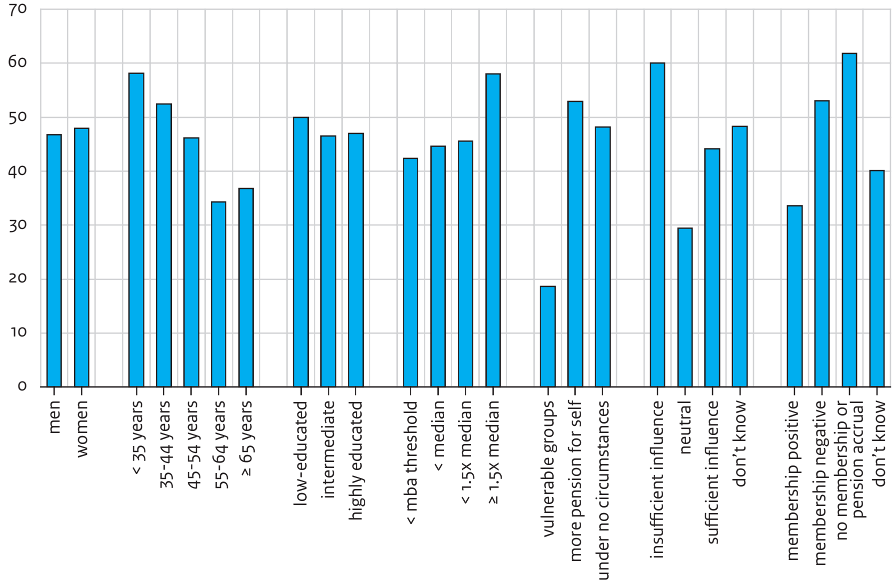


a Background characteristics: sex, age, education level, disposable household income, willingness to pay higher pension contributions, opinion on influence over own pension, expectation regarding membership of pension fund.
b See note 10 for an explanation of the *mba* (modest but adequate) threshold.

Source: SCP (SiP'14)

The importance people attach to the ability to choose their own pension fund is also found to be related to age, the willingness to pay higher contributions, the respondent's opinion on their influence over their own pension and their expectations regarding their own membership of a pension fund (Figure 5.11). As expected, however, the relationships operate in the reverse direction: the proportion of respondents who regard the ability to choose their own pension fund as more important than solidarity within pensions increases as the age of the respondents decreases, and is also relatively high among those who would under no circumstances be willing to pay more contributions, or only if they received a bigger pension in return on retirement. The group who feel they have too little influence over their own pensions also includes a relatively large number of respondents who think the ability to choose their own pension fund is more important than solidarity, and the same applies for those who are not members of a pension fund or who expect a poor financial outcome. We did not find any statistically significant relationships with sex, education level or household income.

Figure 5.11
'I think being able to choose my own pension fund is more important than solidarity', by a number of background characteristics, 2014 (in percentages)[a, b]



a Background characteristics: sex, age, education level, disposable household income, willingness to pay higher pension contributions, opinion on influence over own pension, expectation regarding membership of pension fund.
b See note 10 for an explanation of the *mba* (modest but adequate) threshold.

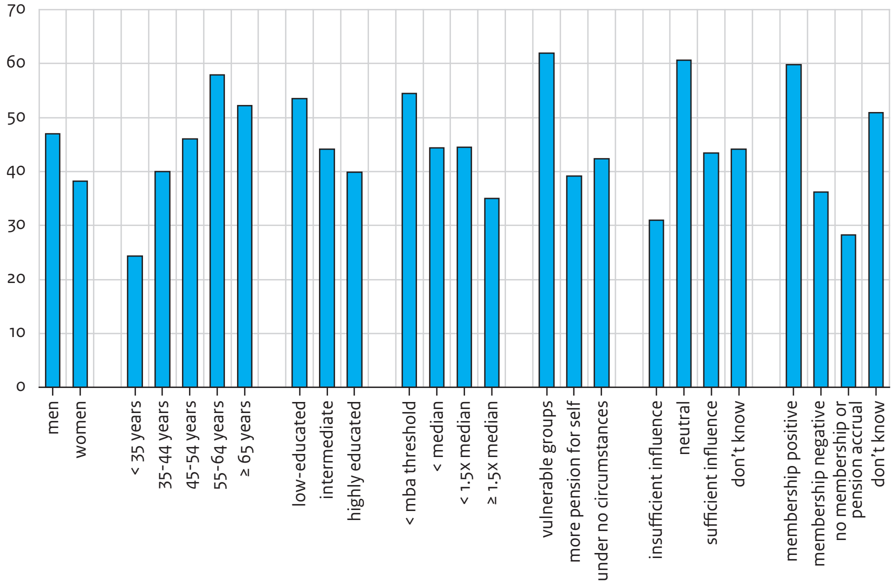
Source: SCP (SiP'14)

If we include the background characteristics in the calculation and then control for their mutual influence, the relationships found with opinions on the importance of being able to choose a fund oneself remain. Moreover, a further significant difference emerges: compared with respondents with an income below the SCP poverty threshold (the 'modest but adequate criterion'),[10] people with a disposable household income of at least 1.5 times the median income (the highest income group) more often report that they consider the ability to choose their own pension fund to be more important than solidarity within pensions.

The question of whether people would choose a collective or a (fully or partly) individual pension scheme – assuming this were possible – was put to respondents (virtually) at the end of the questionnaire, and can therefore be seen as a sort of final summary of the views and opinions that precede it. Figure 5.12 shows that those who are willing to pay higher contributions in order to help vulnerable groups would relatively often opt for a collective scheme. They are closely followed by those who express a neutral view on their influence over their own pension and by those who expect their membership of a pension fund to turn out well financially. Older respondents and those with a lower education level also relatively often support a collective scheme, as do men.[11] Those who would choose an individual or hybrid scheme are found mainly among young people aged up to 35 years, people who feel they have insufficient influence over their own pension and respondents who are not members of a pension fund or who are not saving for a pension at all. Between 70% and 75% of these three subgroups express a preference for a non-collective pension scheme.

After controlling for the mutual relationships between the background characteristics, the difference in preference between men and women disappears, as does the association with education level. The other relationships found between background characteristics and a preference for a collective or individual pension scheme remain, while – as with the previous variable – there is now also a statistically significant relationship with income. Once again, the difference occurs between respondents in the highest income category and those on the lowest incomes, with the former less inclined to choose a collective pension scheme than the latter.

Figure 5.12
'I prefer a collective scheme in which the ups and downs of the investments are spread across all members', by a number of background characteristics, 2014 (in percentages)[a, b]



a Background characteristics: sex, age, education level, disposable household income, willingness to pay higher pension contributions, opinion on influence over own pension, expectation regarding membership of pension fund.
b See note 10 for an explanation of the *mba* (modest but adequate) threshold.

Source: SCP (SiP'14)

5.7 Conclusions

The survey findings suggest that there is still relatively wide support for solidarity within pensions in the Netherlands. For example, almost two-thirds of employees regard solidarity within a pension fund as important or very important, largely because of the association it evokes with 'a good pension for everyone'. When confronted with the (hypothetical) possibility of choosing between a collective pension scheme, an individual scheme or a hybrid form, almost 40% would choose the first option and just under 20% the second. A majority of the other respondents would opt for a collective basic scheme combined with an individual top-up scheme.
Nearly three-quarters of respondents believe that membership of a pension fund means they help pay for the pensions of others. In many cases, people take a neutral or positive view on this, especially when it comes to situations that could affect anyone or where the

'subsidy flow' benefits vulnerable groups. This changes when people feel the subsidising effect is unfair. For example, respondents consider it a bad thing that some generations of employees contribute to building a buffer in the pension fund from which they themselves may not benefit. People also take a negative view of the fact that younger employees pay relatively too much in contributions or that people with a low income help pay for the pensions of people with a higher income.

Although the findings suggest a desire for solidarity, this does not mean that there is no demand for more influence and choice. Not only do 45% of respondents feel they have insufficient influence over their own pension, but more than half also say that they consider it important to be able to decide for themselves how much they invest in their pension, and almost three-quarters would like to be able to choose the level of risk of the pension fund investments. That said, people will by no means always actually make use of such choices, especially if they are relatively risky. Although a majority of those surveyed say that they would opt to save for early retirement or to insure continued pension accrual during periods of unemployment or incapacity for work, only one in eight would choose higher-risk investments or to draw down their pension pot early.

The demand for more influence and individuality within pensions is found mainly in the youngest age group and the category with an income that is above or well above the median. People who are not themselves members of a pension fund or who believe that their membership will turn out badly for them financially are also relatively often supporters of more influence and choice, as are (as might be expected) those who feel that they currently have too little influence over their pension. Finally, people who say they would not be willing to pay more in pension contributions, or only if they receive a bigger pension in return when they retire, relatively more often support more individuality.

Those who support solidarity and collectivity are found mainly among people aged 35 and over, people with incomes of no more than 1.5 times the median and people who are optimistic regarding their future pension and their membership of a pension fund. They are also relatively often the ones who would be willing to pay higher contributions if this would help others.

Notes

1 The first answer is factually incorrect.

2 Further analysis shows that those who indicate that they regard a supplementary pension as their own pension pot also attach less importance to solidarity within pensions, feel less loyal to the pension fund of which they are a member and more often support a degree of choice.

3 These questions are not about knowledge, but about respondents' opinions on whether or not the statements are true. It emerged from the cognitive interviews that this question set was interpreted correctly, although the interviewees added that 'some questions required knowledge' and that they were aimed more at 'people who understand the subject matter'.

4 Further analysis shows that these are to some extent the same people: 60% of those who say that the statement, 'Membership of a pension fund means that I don't have to think about how much I need to

put aside for my retirement' is true or completely true also agree with the statement, 'Membership of a pension fund means that I can't decide for myself whether and how much to save for my retirement', and vice versa.

5 Once again, these are to some extent the same people: of those who consider the statement, 'Membership of a pension fund means that I pay lower contributions because collective pension saving is cheaper than individual saving', around 50% also agree with the statement, 'Membership of a pension fund means that the contributions I pay might be more than the pension I will receive back later', and vice versa.

6 The average contribution system means that younger employees pay relatively too much and older employees relatively too little in pension contributions. The tipping point is around age 45.

7 These differences are statistically significant ($p < 0.05$).

8 Self-employed people were presented with a scenario in which they went to work for a company (as employees).

9 A proportion of the respondents in this study did not take part in the NIDI study. They were randomly assigned to one of the two subgroups.

10 The 'modest but adequate' criterion is a poverty threshold developed by SCP on the basis of data from the Dutch National Institute for Family Finance Information (Nibud) on minimum household expenditure on basic necessities such as housing, clothing and food, plus minimal expenditure on leisure activities and social participation (see also SCP/CBS 2014).

11 All these differences are statistically significant ($p < 0.05$).

Summary and discussion

An effective dialogue about pensions not only requires an insight into the views of researchers and other experts, but also needs to take in the views of citizens. What do members of the public think about solidarity in the pension system? What do they expect from pension funds? Do they actually still want a system based on collective pension schemes? In this final chapter we draw a number of conclusions in relation to these points.

This study was carried out at the request of the Dutch Ministry of Social Affairs and Employment and forms part of a series of scientific studies intended to shed light on different aspects of the present and future pension system in the Netherlands. The theme of this study was solidarity, with the central research question being to what extent working people still regard solidarity in the pension system as important. To answer this question, an Internet survey was conducted in late November 2014 among over 1,000 people who were either in waged employment or self-employed. The results described below are based on data on 976 of these respondents.

6.1 Scope of the study

Earlier research has shown that it is not easy to ascertain what people think about the Dutch pension system or about their own pension, and our study confirms this. Many people find it a difficult topic, see a pension as something that does not concern them at the present time and therefore feel little inclination to find out more about it. This leads to a lack of knowledge and interest, which not only imposes limits on what can be asked of an 'average citizen' in a survey about pensions, but which may also be reflected in the consistent selection of neutral or 'don't know' responses in surveys. A number of quality tests were incorporated in this study of solidarity in the pension system in a bid to determine the extent to which such behaviour played a role and how it may have influenced the results. For 91 of the 1,067 respondents (8.5%), we were forced to conclude based on the time they spent filling in the questionnaire and their response patterns that this was indeed likely to be the case. Their responses were subsequently left out of consideration. There is no guarantee that the other 976 respondents always interpreted the questions in the way that was intended. Although we may assume that they took the questionnaire seriously, they too may have been hampered by a lack of knowledge. One indication of this can be found in the question block about the kinds of people that respondents would (or would not like) to be members of the same pension fund (§ 5.4, Table 5.8): in response to each of these questions, 50-80% of respondents opted for a neutral position and around 10% indicated that they did not know. This suggests that most respondents have little idea that the risk is shared with those other members, and therefore did not interpret the questions in those terms.

Giving a neutral response does not always indicate a lack of knowledge, however. For example, 30-60% of respondents expressed a neutral opinion on the fact that some population groups benefit more than others from the average contribution system, while other groups contribute too much (§ 5.1, Table 5.4). Comments by participants in the cognitive interviews show that they genuinely understood that this is due to events which – at least at individual level – cannot be predicted and which could also affect them. Combined with the greater diversity of responses depending on which group benefits from the effective 'subsidy', we may therefore presume that these respondents were genuinely taking a neutral stance, and that their responses did not mask a 'don't know' position.

The fact that data were collected through an online research panel means that the findings cannot be generalised to the total working population in the Netherlands. Not only are people with a higher education level overrepresented on the panel, and migrants underrepresented, but the possibility cannot not be ruled out that the opinions and ideas of panel members differ from those of the 'ordinary' population. Since this panel is used regularly for research on financial issues, the participants are more accustomed than the average Dutch citizen to answering questions on financial matters. Their interest in such topics may also be greater than average. On the one hand this makes them suitable respondents, especially for a difficult topic such as pensions; on the other hand, we cannot assume that they form an accurate reflection of the (working) Dutch population. In order not to suggest more precision than we can justify, we decided not to reweight the results. Point estimates presented in this report therefore relate only to the participants in this study.

6.2 Responses to the research questions

Four main questions were formulated in the study. In this section we summarise the responses.

1 Which social trends are taking place in the Netherlands that could influence the support for solidarity in the supplementary pension system?

Population ageing has been familiar phenomenon in the Netherlands for a long time: the share in the population of people aged over 65 has more than doubled since the 1950s, and will continue to rise in the coming decades. By 2040, older people are projected to account for more than a quarter of the population. At the same time, the share of children and young people aged 20 years and under fell sharply in the 1970s and 80s: where more than a third of the population in 1970 consisted of persons aged 0-19 years, this had fallen by ten percentage points by 1990. Currently, children and young people account for 23% of the population, and the forecast for 2040 is 22%. The result of these two demographic trends has been to greatly increase the pressure on the potential labour force. On the one hand, the number of older persons – and therefore the number of pensions in payment – is increasing, while on the other there are fewer people in work to pay for those pensions. The Dutch government is attempting to counter this by raising the retirement age and (from 2022) linking it to average life expectancy. For the current working population, this means in practice that they will have to continue working for longer and will receive a lower pension, the latter partly due to the fact that the raising of the retirement age was accompanied by a lowering of the accrual percentage. Young people could feel particularly penalised by this and may decide to turn their backs on the present collective pension system. If this proves to be a cohort effect, this group is likely to grow in the future.

Increased labour mobility may also influence the importance that people attach to solidarity in the pension system. In the past, people often spent their entire working lives with the same employer, but today people change jobs regularly or decide to leave waged employment and become self-employed. Particularly where this latter move is inspired by the idea of being their 'own boss', it is plausible that they may see little value in a collective pension system.

A third development is the rise in the education level in the Netherlands. Over the last 20 years, the proportion of people in the Netherlands attaining no more than a pre-vocational secondary vocational qualification (*vmbo*) has fallen by more than 10 percentage points, while the share completing a higher education or university degree programme has grown by over 10 percentage points. There is a presumption that people who are better educated are more assertive, more inclined to arrange their lives as they see fit and better able to do so. This, it is argued, leads to a desire to take more personal responsibility and have greater freedom of choice, including in the area of pensions. Whether this means that these people attach less importance to solidarity within the pension system is however unclear. It may simply be that they would like a more customised approach within the existing collective system.

Taking all these factors together, the support for solidarity appears to be under severe pressure: all three trends cited above (population ageing, flexibilisation of the labour market and the rise in education level) could potentially mean that specific groups of workers – young people, job changers, people with a higher education level – no longer believe in the present pension system. One of the goals of our study is to ascertain whether this possibility is supported by the empirical data.

2 To what extent do employees and self-employed workers consider solidarity in the supplementary pension system important?

A majority (63%) of respondents in waged employment score solidarity within a pension fund as important or very important, mainly based on the notion that everyone has a right to a good pension. Solidarity is substantially less important for self-employed workers:

fewer than 10% of them would – assuming it were possible – 'definitely' choose a pension fund which is characterised by solidarity.
More than seven out of ten people believe that membership of a pension fund entails contributing to the pensions of other people. Generally, people take a neutral or positive view on this, especially if they feel that those who benefit from this solidarity can do nothing about it (the very elderly) or form a vulnerable group (people with an incapacity for work). People take a much more negative view of the fact that some generations of employees pay into their pensions but – because of disappointing investment results – do not benefit to the full from their contributions. People also find it more difficult to accept that people in a relatively vulnerable position (the low-educated, young people, people with a low income) help pay for the pensions of better-off workers.
All in all, it appears that workers are willing to accept redistribution in relation to risks that could also affect themselves (ageing, incapacity for work), but less willing to subsidise groups 'that are already doing well'.

3 With which groups are people willing to share risks?

The survey revealed that most working people do not mind who the other members of their pension fund are. If they do have a preference for a particular group of members, it is based mainly on the idea that the fund should represent as many people as possible. These responses suggest that it is unlikely that the respondents interpreted the questions in terms of risk-sharing; it seems more probable that they were concerned about how many people could contribute to the 'pension pot'.

4 Do working people have a preference for solidarity or freedom of choice within supplementary pensions?

As stated, a majority of people in waged employment in the Netherlands regard solidarity within pension funds as important or very important. Faced with a choice between solidarity or the ability to choose their own pension fund, however, a high proportion of respondents (47% of waged employees, 57% of self-employed respondents) choose the latter option. The fact that – as explained in a note to the survey question – people can then exit a pension fund which is in difficulty may have played a role here. In line with this, respondents indicated that if they were able to choose their own pension fund, they would look mainly at the health of the fund and at the risk that this would deteriorate in the future: at least four out of five respondents said they would look at the funding ratio, investment risks and investment results in recent years. In addition, over half the respondents reported that they would in fact leave their pension fund if it was in poor health and if they could exit without this impacting on their pension. The main reason given for taking this decision is that people do not want to see their position deteriorate (even further), or that a different pension fund or a different insurer might deliver better results. For those who think they would stay with their present pension fund, the most frequently cited motives are the hope of improvement in the future and the fear that things will be just as bad in other pension funds. The notion of solidarity hardly plays a role; neither those who said they would opt to leave their pension fund nor those who would stay showed much evidence of solidarity with the other members of the fund.

The desire for choice is found to increase in parallel with the demand for standard pension schemes. On the one hand, a majority (up to nearly 70%) feel it is important to have the freedom to determine some aspects of their pension themselves; on the other hand, an equally large majority feel it is important that those same matters are arranged for them automatically. This confirms findings in earlier research, and suggests that, while people want to *have* the ability to choose, they may not wish to exercise it. If people were actually offered choices, the majority would choose greater security (continued pension accrual during periods of unemployment or incapacity for work (58%)), or the ability to take early retirement (65%). Only a minority would choose relatively risky options, such as investing with a higher risk or withdrawing accrued pension capital early to spend as they wish.

Whether people choose solidarity and collectivity or choice and individuality is found to be associated with a number of background characteristics. Young people, people with a high income and people who are critical of their own pension scheme and of their influence on it are more likely to choose individuality. Proponents of solidarity, by contrast, are found mainly among those aged over 35, those on middle and lower incomes and those who take an optimistic view of their future pension and their membership of a pension fund. The low influence of education level is striking. Although according to their own reports, low-educated respondents more often choose a collective pension scheme than their more highly educated counterparts, this difference disappears after correcting for the influence of other characteristics. This suggests that the rise in education level in the Netherlands may have less influence on the desire for choice and individuality than is assumed.

6.3 Significance and implications of the study

Bearing in mind the caveats in section 6.1, a general picture emerges in which the working people who took part in this study primarily want to feel they are well insured, represented by a financially strong pension fund and therefore have certainty regarding their future pension. Which pension fund provides this service is less important to them, provided the financial basis is solid, or will be within the foreseeable future. The desire for choice, where present, is also largely focused on security and retaining accrued rights: in particular, people would like to be able to ensure that their pension continues to build during periods of incapacity for work and unemployment, and to be able to pay in extra to save for early retirement. Solidarity and redistribution of risks are a part of all this, but not necessarily under the present system in which people are mandatorily enrolled in their employer's pension fund.

As a corollary to this last finding, both participants in the cognitive interviews and a number of respondents in the online survey expressed a preference for a system with just one pension fund for all workers. The present system, with its many pension funds, is not based on a competitive approach; people cannot – as they can with medical insurance – enrol with a fund that offers them the most favourable terms or outcomes. That would only be the case if it were possible to switch to a fund offering the most appropriate cover for the lowest contributions. The present system with its multiplicity of pension funds offers these respondents no benefits but simply lots of red tape, especially when switching pension funds due to a change of employer.[1] A system with one general pension fund would go against the prevailing trend towards decentralisation and a government that is adopting an increasingly hands-off approach. Moreover, the transition to such a system could entail high costs – like the decision to abandon the average contribution system. From the perspective of the 'ordinary citizen' however, it appears to be a logical step towards genuine collectivity with lower administration costs. The Framework Memorandum on the future of the Dutch pension system does consider the option of a 'national pension', but ultimately abandons it, principally because this policy variant would entail too drastic a change in the existing pension system (SZW 2015: 10).

A high proportion of respondents appear to have a desire for choice in theory, but do little with it in practice. Although respondents indicated that they would make use of some of the options presented in the survey, it is unclear how far this would translate into actual behaviour. This means that the choices offered in the supplementary pensions system in the future will initially – and perhaps permanently – have to be modest, both because of practical considerations (transparency, administration costs), and to avoid members perceiving the *ability* to choose as meaning they *have* to choose. As highlighted in chapter 3, many people already feel that the amount of choice offered by health insurers, Internet service providers and energy providers is excessive and sometimes even a burden. In order to create broad support for a pension system with more scope for customisation, it would be wise to begin with a small number of clear choices for which there is a demonstrable demand.

One group in a distinct position are the self-employed. The difference lies not only in their factual situation with regard to their pension, but also in a number of the views they hold – according to our study –about pensions. Almost a third of self-employed respondents say they do not wish to be members of a pension fund, while just over half say they are not building up any pension at all. At the same time, self-employed people feel considerably more often than waged employees that they currently have sufficient influence over their own pension. Taken together, these findings suggest that they have either made different provision for their retirement or that they regard the choice not to do so as exerting an influence over their pension. The fact that a large minority do not feel a need to enrol in a pension fund also suggests that they have little appetite to sign up to the collective pension scheme for the self-employed that was launched at the start of 2015.

6.4 Follow-up research needed

The findings in this study describe the views of Dutch citizens on solidarity within the pension system, but also highlight the gaps in the knowledge about this topic. In a follow-up study we would seek to relate these two findings to each other. A central question then is whether people who are relatively knowledgeable about the pension system have different views and make different choices from people with relatively little knowledge. Their reported wishes could then provide an insight into how more customisation could be built into the system, whilst at the same time protecting people from making wrong decisions about their own pensions.

The respondents in this study were not representative of the total working population in the Netherlands in several respects. Not only was the share of respondents with a higher education level greater than in the population at large (approx. 55% versus 35%), but migrants, and especially those of non-Western origin, were also greatly underrepresented. A new study of public views about pensions would require a sample that provides a more accurate reflection of the population. It is highly likely that the knowledge gaps will then turn out to be much larger. It may be that we will have to take a step backwards and first consider the most suitable method of data collection in order to obtain a good picture of the views of low-educated people and migrants about pensions. One option might be to use *deliberative polls*, in which a representative group of citizens – with support from experts – discuss this theme. By asking them about their perceptions and preferences both before and after these discussions, we would be able to determine whether and in what way opinions about this topic change when people are better informed and are exposed to alternative viewpoints.

Both waged employees and self-employed workers took part in this study. During the data collection period, in late November 2014, a collective pension scheme for the self-employed did not exist. Self-employed respondents were not asked about this, though several references were made to the possibility of participating in a special pension fund for the self-employed in the future. Many of the survey questions were therefore hypothetical for the self-employed respondents. In a future study, it is recommended that a separate questionnaire be developed for self-employed workers, which asks specifically about their views and wishes regarding solidarity or individuality in the supplementary pension system, the arrangements they have made for the own retirement, and their knowledge of and opinions on the new collective scheme for the self-employed.

This study investigated the relationships between opinions on solidarity and characteristics such as sex, age and income, for three outcome variables. It could be interesting in future research to determine which psychological characteristics fit the profile of those who favour solidarity in supplementary pensions and which match the profile of workers with a preference for individuality. One such characteristic might be the general inclination to take or avoid risks, something that seems highly likely to be associated with the extent to which citizens will make use of the proposed scope for more customisation in supplementary pensions, and with the choices that they actually make. The cautious approach to choice that emerged from this study suggests that the group who opt for high-risk choices will not be large.

Finally, bearing in mind the foregoing comments, it is recommended that opinions on supplementary pensions continue to be monitored. The findings of our study suggest that certain groups in the working population have a desire for more customisation within pensions, in turn suggesting that they will welcome the proposed changes in the pension system. At the same time, it is important not to lose sight of those who mainly want certainty about their future pension, and who for that reason may absolutely not support the introduction of choice or of changes in general. They too will help determine the level of support for the (future) configuration of the pension system. It is important that the views of both groups are heard regularly.

Note

1 When switching pension funds, it is incumbent on the members themselves to discover which is more beneficial for them: transferring their accrued pension capital to the new pension fund or leaving it with the old fund.

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