Old age provisions and old age institutions

Gabe H. de Vries

Reeuwijk, 19 August 2003

Old age provisions and old age institutions[1]

Content

1. Introduction	2
2. General structure of old age provisions	2
3. The scheme	3
4. The (quasi) institution which offers old age provisions	4
5. The institution that manages the pension institution	5
6. The Dutch old age pension system	5
a. The State pension scheme	6
b. The employment related pension schemes	6
c. The privately organised pension schemes	8
7. Classification of the Dutch schemes and institutions	8
7a. Classifying transactions	8
7b. Classifying institutions	9
8. Some special classes of pension transactions with Dutch pension schemes	9
Annex 1. The Dutch old age system	11

[1] The author is grateful to John W.S. Walton for his helpful comments with a draft of this paper, which are incorporated in this revision.

1. **Introduction**

Pension provisions and the national structure of organising these pension schemes to the country's population diverge in many respects between countries. Even within the European Union large differences exist. Some countries could be characterised by organising these provisions to a large degree on a funded basis (esp. United Kingdom and The Netherlands) whereas others have organised their pension system largely on a pay-as-you go basis. But a large number of further differences exist. This note describes the Dutch old age pension system in the context of the SNA/ESA. The first chapter gives the general structure of old age provisions. The three chapters to follow discuss the three core elements of pension provisions, this is the content of the old age scheme, the pension institution and the entity managing/administrating the pension institution. Chapter 5 discusses the structure of the Dutch old age system. Chapter 6 deals with the classification of the Dutch schemes and institutions according to the SNA/ESA. Chapter 7 discusses some peculiar classes of transactions, which have to do with the pension system in the Netherlands.

2. **General structure of old age provisions**

It seems useful to distinguish between:

- The old age scheme;
- The (quasi) institution, which offers the scheme (the pension institution);
- The institution organising the pension institution;

The pension schemes and the institutions involved with these schemes are totally distinct phenomenon. A scheme is a contract, possibly laid down in legislation, and often named "a policy", which describes the rights and obligations of all parties involved (i.e. the institutions involved, the contributors to the scheme, the early leavers and the pensioners).

The pension institutions, on the other hand, are the institutions that run or manage the pension scheme. The first mentioned class of institutions concern those that are directly responsible for the proper functioning of the scheme, i.e. that have the right to collect contributions and the obligation to pay the benefits and to invest the available funds properly. Relevant examples are state agencies, pension funds and life insurers. These entities normally have a full annual account, separate of the entity that might manage it. These (quasi) institutions could subcontract (and they do in many situations in the Netherlands) the management of the scheme to a third party. This third party could be another government institution, which might have other duties as well, or a private entity such as a dedicated administrative body, an insurer or the employer. These entities also have a full set of annual accounts that does not interfere with the pensions institution's account. They only charge this entity with the service they provide.

Within the system of National Accounts the characteristics of the scheme are primarily relevant in classifying transactions related to old age provisions into social contributions and benefits on the one hand and private insurance premiums and benefits on the other. The characteristics of the institution(s) involved in the scheme are relevant for classifying them into the institutional sector "general government", the institutional sector "insurance corporations and pension funds" or any relevant other institutional sector and within these sectors into the relevant subsector[1].

[1] It, therefore, is incorrect from a conceptual point of view to state for example: "(…) whether a sub-sector for pension funds would only include pension provisions which is part of social insurance or whether it would include personal pension plans and pension provisions for the self-employed". A conceptual correct statement would be "the sub-sector pension funds includes only those funds that run pension schemes, which are classified as social insurance". The institutions that run personal pension plans and pension schemes for the self-employed are part of the sub-sector insurance corporations.
See also SNA par. 4.130: "(…) social security funds are all social security schemes (…)".

Figure 1 Schemes and entities within the SNA/ESA

Type of transaction

Characteristics of the scheme → Social insurance
→ Private insurance

Institutional sector

Characteristics of the entity → Government: social security
→ Insurers and pension funds: pension funds
→ Insurers and pension funds: insurers
→ Non-financial sector

3. **The scheme**

The concept “pension scheme” is largely comparable to the concept “policy” or “contract” with individual insurances or other types of business. With old age provisions, especially with those provisions, which apply to the full population, however, it might well be that the individuals to which these provisions are relevant might not receive any document in their own name stating their rights and obligations. Though, most old age provisions produce such a document in my perception.

This content of the scheme is the prime factor, which should be used to define the social or private character of the scheme in SNA/ESA-terms. The institution(s) involved in the scheme is/are less important, in my view. It might well be – leaving aside all other criteria – that a government arrangement, which applies to large groups of the population is realised through the participation of private institutions. This would therefore imply that the scheme is social whereas the relevant institution (or institutions) belong(s) to the private sector. Nevertheless the type of institution(s) involved often will give an indication on the social character (or not) of the relevant scheme.

The schemes could be classified according to several criteria:

1. The first element concerning any scheme that should be questioned is the group of persons to which the scheme relates. Does it apply to the full population of the country, large segments thereof, groups of workers or to individual persons? With respect to the payment of contributions and the right of receiving benefits the relevant group could be composed differently. E.g. housewives might not be obliged to pay a contribution into the scheme whilst they are entitled to receive an old age pension (after they reached the relevant age).
   In case of a group scheme, various delineations thereof could be distinguished. Relevant classes could be all persons over a certain age (say 25 years), all workers or all employees, all self-employed, the employees of a company or a company group or the employees of all enterprises within a branch of industry or all self-employed in a branch of profession (e.g. lawyers).
   With individual pension schemes a distinction into schemes for the self-employed and for other individuals seems relevant.
2. Secondly, schemes could be classified according to their mandatory character. I.e. whether participation is compulsory to the persons and/or enterprises who pay the contribution and/or the persons who receive the benefits. This possible mandatory character could be distinguished whether it is based on government legislation or on private obligations (e.g. the labour contract).
3. The scheme sets the obligation of the active participants to the scheme, who pay the contribution. This might be a fixed amount pro year, independent of the income of the contributor, or – in several countries up to a ceiling – an income related contribution. On the other hand the benefits could be of a defined benefit nature or a defined contribution nature. Especially with state schemes, it could be a fixed amount pro year independent of the insured’s income (before or after retirement).
4. The idea of solidarity between the insured is a common element in many group and population-wide pension schemes. The concept of solidarity, however, is a very complex one. The judgement that a specific scheme shows the presence or absence of solidarity, therefore, is difficult. Solidarity

could exist with respect to several characteristics of the insured but not with all relevant characteristics. On the other hand, the absence thereof could manifest itself in various manners, e.g. different contributions and/or benefits, exclusion of specific groups of employees, exclusion of specific deceases etc. One specific element is the effect of indirect discrimination[1].

Important elements of solidarity are the age, the sex, the health and the income of the insured. With all factors a different risk might / will exist from an actuarial point of view.

5. The fifth element relates to the fact whether the scheme is funded or unfunded. Apart from the option of being fully funded (i.e. the expected present value of all future benefits equals at least the expected present value of future contributions plus the value of the investments: this possibility is labelled as fully funded or fully capitalised in the rest of this note) the option of a pay-as-you-go system (an unfunded scheme) is possible[2]. A third possibility is the option where the investments equal (at the minimum) the expected present value of future benefits of those who are entitled of a benefit at the moment. This option does not take account of possible rights of those who pay the contributions during the year. A further possibility exists in a situation where the scheme has significant investments but the amount lags far beyond the expected present value of all future benefits. Both latter options are called “partly funded” in the table in the annex.

   So it needs further explanation what is meant by a funded scheme.

The scheme also sets – within the framework of the existing legislation – the treatment of the contributions of the employer and the employee and benefits to the insured from the tax perspective. In many countries the deferred tax principle – the contributions/premiums are tax-deductible whereas the benefits are taxed – seems to be the leading one with respect to the tax treatment of old age provisions.

4. **The (quasi) institution which offers old age provisions**

Several classes of institutions offer old age provisions. They could be formal legal entities, either private institutions or public institutions, or separate departments of a larger body, esp. of (central) government. Any of these pension institutions could be working on one or more pension schemes and could probably be engaged in other activities. Relevant classes of institutions are pension funds, life insurers and government agencies.

These (quasi) pension institutions might employ their own staffs that run the scheme. However, other institutions could manage the scheme/the pension institution as well. They could be private or public sector institutions. With the Dutch state pension scheme the pension institution is the “General Old Age Fund” (a quasi institutional unit in SNA/ESA-terms). This fund has no staff of its own but is managed by another public institution, the “Social Insurance Bank” (an institutional unit in SNA/ESA-terms). Both are public sector entities. With old age provisions no private sector institutions exist that run or manage public sector pension schemes. However, in other areas such a structure exists in the Netherlands (for example: the social insurance against sick leave, which is a public social insurance scheme is partly organised through the employer and/or an insurer and partly by a government agency).

A pension fund is an institution set up by the employer or employers with the trade unions or employees to organise a pension scheme for the employees, according to Dutch legislation. Pension funds, therefore, are private sector institutions[3]. The board of the fund is equally composed of representatives of the employer(s) and the unions or employees. Discussion is going on whether pensioners should be represented in the board as well.

---

1 An employer has two types of employees; say the blue-shirt workers and white-collar workers. The employer has two distinct schemes concerning both groups separately. Solidarity with respect to age, sex, income and health could exist within each group/scheme separately. When actuarial risk differs between these two groups and so the contribution and/or the benefit differs one could question whether overall solidarity exists.

Another example of indirect discrimination is the exclusion of part-time workers from the scheme. As the part-timer used to be predominantly women, an indirect distinction by sex exists.

2 A pay-as-you-go system needs some investments as well for the institution to have funds available for paying the pension benefits.

3 Historically, a few exceptions existed: some pension funds were public sector entities from a legal perspective. Recently, these funds have been transformed into private sector institutions in a legal sense.

All (or nearly all) Dutch pension schemes provide benefits additional to the state pension scheme. This means that for those pensioners where the amount of state pension is higher than the amount of benefits according to the pension fund's scheme, the fund will not pay any benefits to them. With the other pensioners, the pension scheme only pays the difference between the defined benefit amount according to the pension fund's scheme and the state pension. (In fact the inclusion of the state pension in the pension right of pensioners is more complex but that would not change this description principally.) The state pension contribution is in a comparable manner incorporated in the contribution, which should be paid into the pension scheme. With schemes that are directly insured with a life insurer no board exists and the influence of the employees is only through the annual negotiations on the labour conditions (which cover the pension scheme as well).

Around 1,100 pension funds in total exist in the Netherlands. They range from huge funds that have investments, which amount to more than GDP and small funds with only few insured persons and little investments. The number of pension funds is decreasing as supervision on these institutions is tightened. The larger funds basically do without reinsurance (reinsurance of insurance technical risks is marginal compared to their total obligations) whereas the smaller funds are fully reinsured with a life insurer. Quite often an insurer has taken over the management of the fund. The subcontracting of the management of a pension fund to an insurer does not necessarily correspond with full reinsurance of the fund.

The contributions paid into a pension scheme, either with a dedicated pension fund or a life insurer is deductible from the income for tax reasons (deferred tax principle).

5. **The institution that manages the pension institution**

Several options exist in organising the work to operate the scheme. The first option is that the pension institution has a staff of its own who runs the total process[1]. This is especially relevant with pension funds and life insurers in the Netherlands.

On the other hand, quite often another institution runs the pension institution. This other institution is responsible for a proper organisation of the pension institution's processes. It could be another government agency (for example: the Social Insurance Bank), the employer (esp. with company pension funds), a dedicated auxiliary unit often an institution set up by employers and trade unions (basically doing nothing but running the old age institution, esp. with pension funds for branches of industry), a financial institution (bank, insurer, ucits; esp. with company pension funds) or an auxiliary enterprise (profit or non-profit). So, these institutions could be private or public and non-profit or commercial in nature.

Whenever an insurer manages/runs the pension scheme with an employer or employers it could be in one of three forms:

- The insurer manages the pension institution as a separate entity;
- The insurer reinsures the pension institution (fully or partly)[2];
- The insurer runs the scheme as a direct insurer (meaning that the insurer collects the contributions and pays the benefits).

6. **The Dutch old age pension system**

The Dutch pension system consists of three layers.

a. The first layer: the State pension scheme;
b. The second layer: the employment related pension schemes;
c. The third layer: the privately organised individual pension schemes.

The table in the annex to this note summarises the various characteristics of these three layers.

[1] The institution could engage a subcontractor to perform certain duties (such as the investment management). In such a case the institution itself remains fully responsible for the process.

[2] In case of full reinsurance of the pension fund, normally the management of the fund also is delegated to the life insurer.

a. **The State pension scheme**

All income-earners have to pay with their tax a contribution as a percentage of their income into the General Old Age Fund. The relevant income is capped.

Anyone living in the Netherlands between the age of 15 and 65 years is insured under this state scheme. 2% of the ultimate right to receive a state pension is accumulated, each insured year. The payment of contributions is not a precondition to accumulating this annual right to a future state pension. Residency within the Netherlands is sufficient for being insured by the State pension scheme and to accumulate future pension rights. So, for example also students and housewives accumulate pension rights without paying any contribution. A temporal stay abroad in principle could be compensated voluntary.

The level of this state pension right depends on the actual family status after retirement (single or with a partner). All individual elderly persons over 65 years receive a benefit, which is equal to 50% of the minimum income level. Single elderly will receive a supplement of 20% (so 70% in total). Couples (both over 65 years) together will receive twice the 50%-pension (so 100% of the minimum income in total)[1].

This state scheme is basically unfunded though in recent years a dedicated provision with central government has been formed to allow for the future large rise of the number and amount of benefits and to mitigate the corresponding rise of contributions. This provision is not calculated on actuarial grounds. The Social Insurance Bank – a public institutional unit within the general government sector – runs the pension scheme's institution, the General Old Age Fund.

b. **The employment related pension schemes**

The employment related group pension schemes fall into three categories:

- Pension schemes for branches of industry, most schemes are mandatory with respect to all employers within their own branch and. with others, participation of employers is on a voluntary basis[2];
- Company pension schemes, of which about 1,000 are organised through a dedicated pension fund and some 30,000 schemes are directly insured with a life insurer[3].
- Pension schemes for professionals (for example general practitioners, medical specialists, lawyers etc).

Additionally, individual employment related schemes exist. These concern cases where the employer facilitates individual pension policies with its employees (the so-called "c-policies") and the pension schemes with the self-employed.

When an employer wants to offer a pension scheme to the employees (if participation in a mandatory branch of industry scheme is not the case) the choice is between:

- Participation with a voluntary pension scheme for his branch of industry (when existing);
- Setting up a company pension scheme of his own (either through an own company pension fund or through a group pension contract with a life insurer);
- Facilitating the individual employees to conclude a pension contract with a life insurer (the so-called "c-policy").

The far majority of all employees are insured through schemes for branches of industry or company pension schemes. Individual arrangements facilitated by the employer (c-policies) are relatively unimportant. Nevertheless, life insurers have a large (but not dominant) involvement with the employment

1 If the younger partner has no income of his/her own, the state pension of the elder partner will be supplemented by 50% (so 100% in total) until the partner reaches the age of 65 years. From that moment on the partner has an independent own right to a state pension. So, the couple receives still twice 50% of the minimum income. As of the year 2015, this supplement no longer will be granted.

2 Some pension schemes for branches of industry could reinsure themselves with a life insurer. These are not separately mentioned in the accompanying table (see Annex 1).

3 A company pension scheme normally will apply to the group of companies (conglomerate), not to the individual companies of the group.

related pension schemes as a large number of directly insured schemes exist and most pension funds (funds for branches of industry and company funds) are partly or fully reinsured with a life insurer[1].

With most branches or companies, the scheme applies to all employees but some branches and companies have separate schemes for separate classes of employees – for example by type of work (white collar – blue shirts workers), or region. These separate schemes could be organised trough the same fund. Some companies have chosen (in the past) to set up separate funds dedicated to the various schemes. However, an employer is not allowed to exclude an individual employee from the pension scheme, which applies to this employee.

With employment related group schemes, a special problem exists when the employee is changing his position and leaves his employer for a new company with a separate pension scheme. When someone changes within a branch which has a branch-scheme, comparable problems do not exist. Without additional arrangements (either trough dedicated legislation or within the scheme) the rights of the employee become frozen with the old employer. So, the pension rights no longer will be compensated for inflation and the increase in salary. This is considered to be an undesirable obstacle to mobility on the labour market. An approach to this problem is the transfer of the pension provision from the scheme of the old employer to the new employer's scheme. Such a facility exists in the Netherlands and the United Kingdom. Rather strict arrangements (calculation of the rights within the old scheme and the way to translate them into rights according to the new scheme) on this transfer have been agreed upon in the Netherlands.

With the self-employed a profession's pension scheme could exist. In this case, participation predominantly is mandatory. The other option is that each individual self-employed concludes a pension policy with a life insurer.

<u>Pension schemes for branches of industry</u>

Companies are obliged to participate with most pension schemes for a branch of industry. About 65 of these schemes exist. Participation is voluntary on the company level with only 1/5 of the number of schemes. The employees of the company (when belonging to the relevant class of employees) always are obliged to participate in (one of the) the scheme(s), i.e. to pay the contribution (to which the possible employer's contribution is added) and they accumulate the right to receive pensions in future. Predominantly, the pensions are of a defined benefit character; i.e. the benefits are income-related (final pay or middle pay). All schemes are fully capitalised.

The large majority of the schemes for branches of industry are organised through dedicated pension funds. Few have reinsured themselves with a life insurer. An important number of these pension funds have subcontracted the management to a special unit, set up by employers and unions. This unit could also be engaged in other (social) activities.

All employees or the employer on their behalf pay contributions. All insured accumulate pension right, predominantly up to 70% of final or middle salary. Defined contribution schemes exist but are of minor quantitative relevance.

<u>Company pension schemes</u>

Companies are free to offer their employees a pension scheme. No obligation exists with the individual employers (unless a mandatory pension scheme for a branch of industry applies). All employees with the participating employers (within the specified category) are obliged to participate. Contributions and benefits might be topped but mostly are not. Benefits are of a defined benefit character. They used to be of a final pay nature though recently a tendency towards average salary started. All schemes are fully funded and are run either by a dedicated company pension fund (around 1,000 funds) or by a life insurer (around 30,000 schemes). A large part of the 1,000 funds is fully reinsured with a life insurer whilst the remaining funds reinsure part of their risks. This latter group of funds might subcontract the management of the fund to the employer, a dedicated institute or a life insurer.

[1] The life insurers do not classify the reinsurance accepted from a pension fund as indirect business. They consider this as direct insurance.

Pension schemes for professionals

Some ten pension schemes for professionals exist, such as schemes for general practitioners or medical specialists. Most of these schemes are mandatory for the relevant class of self-employed. Benefits often are of a defined contribution nature whereas contributions often are income related. These funds all are fully funded. The fund itself or a dedicated auxiliary institution runs most schemes.

C-polices and self-employed

C-polices are direct pension contracts of individual employees with a life insurer sponsored by the employer. The employee could define the contract by itself, negotiating with the insurer. Often the choice is within a set of pre-selected individual schemes. Benefits with these individual schemes are of a defined contribution nature.

Schemes for individual self-employed are of a fully tailor-made character. It is the individual who decides the content of the policy. Benefits are of a defined contribution nature.

c. **The privately organised pension schemes**

The third layer of the Dutch pension system consists of individual life and pension policies with life insurers. The nature of these policies is – within the borders of tax legislation – fully free. Within this legislative tax border, individuals can pay premiums in case they earn an income but accumulate too little pension savings (with their employer or elsewhere). These premiums are tax-deductible and the benefits are taxed (deferred tax-principle). Outside the tax borders the premiums are not tax-deductible but the benefits are free of tax.

One could argue whether other forms of private savings are part of this third layer or should be considered as the forth layer of the Dutch pension system.

7. Classification of the Dutch schemes and institutions

7a. Classifying transactions

Both the SNA and the ESA define, though in a different manner, the concept of social insurance schemes and social insurance transactions. The latter seem to be restricted to contributions (premiums) and benefits. Other transactions related to social insurance schemes are not labelled separately.

The ESA-definition of social insurance transactions has the following core-elements[1]:

- The transactions should be (indirectly) with households;
- The scheme should be a group scheme or be organised by government or a non-profit institution serving households (NPISH)[2];
- The scheme should be designed to relieve households from the financial burden of an enumerated list of social risks or needs;
- The benefits from the scheme could be in cash or in kind;
- Schemes set up by government or NPISH are not conditional on the payment of contributions;
- The scheme should cover the entire community of a country, large sections of the entire community or the (ex-)employees and their dependants of enterprises, which implies that either:
  - Participation in the scheme is compulsory by law or by the labour-contract;
  - The scheme is designated and restricted to a group of workers (employees, self-employed or non-employed);
  - The employer makes a contribution to the scheme (independently of whether the employee also makes a contribution).

The SNA basically has the same set of criteria on board. Some minor differences seem to exist. For example, the SNA does not explicitly include a list of social risks and needs and mentions private institutions to organise the social insurance system (not limited to NPISH). Also, the SNA releases the

---

1 See ESA, par. 4.81 – 4.108.

2 The ESA acknowledges the role of employers with pension schemes set up as a book reserve system. It, however, does not explicitly mention other classes of social insurance schemes with the employer or insurer. This class of social insurance schemes becomes increasing important in the Netherlands.

4 One should additionally decide on the classification of the pension fund's transactions with a life insurer.

obligation to participate. The situation where the participant is encouraged to participate, but an opting-out clause is acceptable, could fall within the SNA-definition.

From these criteria it is clear that the Dutch state pension scheme falls within the boundaries of social insurance. With the second layer, the situation in the Netherlands is more complex. The group schemes for branches of industry, the company pension schemes and the schemes for professionals basically accord with the criteria[4]. Only where the group scheme is directly insured with a life insurance company, the classification thereof could be debated. In my opinion, they should be classified as social insurance as well[1]. The real problem is with the so-called c-policies and the individual policies of the self-employed. The individual employee is obligatorily insured on a c-policy but it is an individual scheme run by a life insurer. However, one could question whether the ESA-term “group scheme” concerns the employee’s policy with the life insurer or the support facility created by the employer. Data-problems exist with this class of pension policies. The annual accounts of life insurers do not contain any separate information on this class of policies. This might necessitate the classification as private insurance. The policies taken out by individual self-employed should be classified as private insurance as they do not accord several criteria (individual, life insurer). All policies that belong to the third layer are private insurance schemes.

7b.**Classifying institutions**

The Dutch social security funds are part of the institutional sector “general government” in both the SNA and the ESA. Their legal status is irrelevant; the institutions involved could legally be private institutions or have a public legal status. All entities should be financed by compulsory payments and/or be engaged in the redistribution of income and wealth.

An entity engaged in organising a social scheme or social schemes should according to the ESA be classified as a social security fund, if it fulfils both the following criteria[2]:

- Certain groups of the population are by law or regulation obliged to participate in the scheme (or schemes) or to pay contributions[3];
- General government is responsible for the management of the institution (apart from supervision of these entities).

The SNA set a comparable set of criteria (but relieves a bit the mandatory character of the schemes)[4].

According to these criteria, the institutions organising the Dutch state pension scheme should be classified in the sector “social security funds”. The remaining institutions should be classified in the sector “financial institutions”, sub-sector “insurance companies and pension funds” or sub-sector “financial auxiliaries”[5]. The latter sub-sector is relevant with entities managing a pension fund without being an insurer or pension fund itself. One could argue whether a reclassification of these auxiliary entities in the sub-sector “insurance companies and pension funds” would be preferable.

8. **Some special classes of pension transactions with Dutch pension schemes**

With pension funds (the second layer of the Dutch pension system) some special transactions exist. These relate to reinsurance and to the transfer of technical provisions from the old employer’s pension scheme to the scheme of the new employer.

The reinsurance transactions are transactions of pension funds with (resident or non-resident) life insurers or professional reinsurers. Neither the resident life insurers nor the resident reinsurers give any information in their annual accounts on the reinsurance of pension funds in the Netherlands. The pension fund’s annual accounts on the other hands contain information on the reinsurance transactions with these companies (premiums written/earned, benefits, change in technical provision and the

---

1 Data-availability could be a problem, as the European accounting directive does not separately distinguish group contributions and group benefits.

2 See ESA, par. 2.68 – 2.74.

3 Preferably, this should be formulated for example as “the institution is primarily engaged in organising/managing social insurance schemes”.

4 See SNA, par. 4.111 and par. 4.113 – 4.130.

5 See ESA, par. 2.60 – 2.67; SNA, par. 4.96 – 4.98.

level of the technical provisions). Information on the individual reinsurers also is in the fund's annual accounts. The pension fund's accounts, however, do not contain any data on premium supplements. This element therefore should be estimated. An algorithm to estimate premium supplements concerning outward reinsurance from the direct non-life insurer's data has been developed[1]. This method seems fully applicable to the pension fund's case. The reinsurance of pension funds therefore, does not produce additional complications from a NA-perspective apart from the method of dealing with reinsurance in general.

The transfer of technical provisions between the schemes of the old and the new employer is more typical for the Dutch system[2]. This transfer is intended to avoid further involvement of the old employer with the pension rights of his ex-employees. This involvement might result in a sub-optimal pension level with the employee at retirement. By transferring these rights to the new employer's scheme, these drawbacks could be avoided. The right to transfer pension provisions is legally settled as are the algorithms (depending on the old employer's pension scheme) to calculate the value of the pension rights. The new employer's fund has to translate the amounts transferred into pension rights according to the new scheme. These transfers of technical provisions between pension funds amongst themselves and/or between pension funds and life insurers (in both directions) are classified as "other capital transfers". This classification is motivated by the fact that accumulated savings are transferred between two entities (see ESA, par. 4.164).

The life insurer's transactions concerning the Dutch pension system are multiple. The concern:

1. reinsurance accepted of pension funds;
2. direct pension contract's transactions with employers and (ex-)employees;
3. transactions concerning the so-called c-policies;
4. the transfer of accumulated pension rights between life insurers and pension funds and amongst life insurers.

ad 1. The life insurer's annual account does not contain any information on reinsurance accepted from pension funds. The separation of this class of reinsurance transactions with the life insurers, therefore, has to be based on the pension fund's data.

ad 2. The life insurer's annual account also contains little information on group life insurance in the Netherlands. Only with respect to single and regular premiums the accounts contain relevant information. With respect to benefits, premium supplements, provisions no separate data are included in the annual accounts. Regrettably, the definition of single premiums is vague. The question is whether it relates to back-service and coming-service (and comparable transactions) only or also to the transfer of accumulated pension rights to the life insurer. The classification of the various transactions according to the SNA/ESA presents no additional problems.

ad 3. Conceptually, the transactions concerning the so-called c-policies do not present any difficulties. The main issue here is the total lack of dedicated data within the annual accounts of the Dutch life insurers. This makes it fairly impossible to deal with these transactions separately.

ad 4. The accounts of life insurers do not contain information on the transfer of pension rights between pension institutions. As far as concerning between pension funds and life insurers are concerned, information could be based on the pension funds' data. The intra-life insurers transfers probably could be netted only (so are nil).

---

[1] See, Elena Marton and Gabe H. de Vries, Treatment of reinsurance in the national accounts, A comparison of three methods of recording reinsurance transactions, Neuchatel/Reeuwijk, 13 June 2003, OECD, EDG on non-life insurance.

[2] The British pension system seems to have the option to transfer technical provisions as well.

Annex 1. The Dutch old age system

Characteristic \ Pension scheme		1st layer	2nd layer			
		State pension scheme	Branch pension scheme		Company pension scheme	
			mandatory	voluntary	fund	insurance
Number of schemes		1	65	15	1.000	30.000
Obligation						
company		-	yes	no	no	no
persons	premium	yes	yes	yes	yes	yes
	benefits	yes	yes	yes	yes	yes
Coverage						
premium	persons	all income-earners	all/group	all/group	all/group	all/group
	company		specific branches	specific branches		
benefits	persons	all>65 years	all/group	all/group	all/group	all/group
Premiums						
income related		x	x	x	x	x
fixed amount						
Benefits						
fixed amount		x				
defined contribution			x	x	x	x
defined benefit			x	x	x	x
Solidarity						
age		x	x	x	x	x
sex		x	x	x	x	x
income		x	x	x	x	x
Capitalisation						
pay-as-you-go		largely				
partly funded		small				
fully funded			x	x	x	x
(Quasi-)institution						
private	pens.fund		x	x	x	
	life insurer		x	x		x
	other					
public		x				
Institution						
private	pens.fund		x	x	x	
	life ins.		x[1)]	x[1)]	x[2)]	x[3)]
	other		x	x	x	
public		x				
Taxation						
premium	deductible	x	x	x	x	x
Supervision		state	PVK/ implicit	PVK/ implicit	PVK	implicit

[1] A life insurer could run/manage the pension scheme either in the form of a direct insurance contract or through a reinsurance contract

[2] A life insurer could run/manage the pension scheme through a reinsurance contract

[3] A life insurer runs/manages the pension scheme in the form of a direct insurance contract

Annex 1. The Dutch old age system (cont'ed)

pension scheme / Characteristics		2nd layer (cont'ed) Individual employee (c-policy)	Professions	Self-employed	3rd layer Private
Number of schemes		unknown	10	unknown	unknown
Obligation					
company		no	no	-	-
persons	premium	yes	yes	no	no
	benefits	yes	yes	no	no
Coverage					
premium	persons	all/group	all	individual	individual
	company	specific professions			
benefits	persons	individual		individual	individual
Premiums					
income related		x	x	x	x
fixed amount			x	x	x
Benefits					
fixed amount			x	x	x
defined contribution		x	x	x	x
defined benefit		x	x		
Solidarity					
Age		-	x	-	-
Sex		-	x	-	-
Income		-	x	-	-
Capitalisation					
pay-as-you-go					
partly funded					
fully funded		x	x	x	x
(Quasi-)institution					
private	pens.fund	x	x		
	life insurer			x	x
	other				
public					
Institution					
private	pens.fund		x		
	life ins.	x[3]	x[1)]	x[3)]	x[3)]
	other		x		
public					
Taxation					
premium	deductible	x	x	x	depends
Supervision		implicit	PVK/implicit	implicit	implicit

1 A life insurer could run/manage the pension scheme either in the form of a direct insurance contract or through a reinsurance contract

2 A life insurer could run/manage the pension scheme through a reinsurance contract

3 A life insurer runs/manages the pension scheme in the form of a direct insurance contract