

NEW PENSION LEGISLATION

announced from 2022, under construction

High stakes & big decisions to be made in early 2021

The government has been discussing pension plan reforms with the pensions industry and unions which will have a dramatic impact on company pension plans. After years of discussions, we expect the law to change from 1 January 2022. Pension plans based on the expected new pension legislation can be implemented starting 2022. The new legislation will require companies and pension funds to act; with a requirement to be compliant before 2026 at the latest. The new legislation will change all future pension plan provisions to a defined contribution structure. Crucially, there is a limited window to preserve the value of current plans by using the current legislation which would therefore need to be implemented in 2021!

Does this also apply to you? Investigate your options early 2021. This will leave you with sufficient time to decide and properly implement any change.

Defined Contributions and Defined Benefits pension plans impacted

The aim of the new pension legislation is to make pensions more transparent, personable and portable, which will be more appropriate with current workforce mobility. However, while the costs of providing the pension to employees will be fixed and transparent, the new design lacks any guarantees and certainties which could be a concern for companies as it may make retirement less predictable.

All pension plans will be Defined Contribution (DC) from 2026.

Active defined benefit (DB) pension plans, both career average and final pay plans, will cease to exist from 2026, while DC pension plans in existence at the end of 2021 will be allowed to continue without change for existing members. Hence, if it is attractive to provide a targeted DC plan which has an age-related contribution structure reflecting the value of the DB plan benefit being changed, then the new plan would need to be set up in 2021.

The announced new pension legislation will affect some current DC-plans and all DB-pension plans, for all types of pension plan provider: industry wide-, company and general pension funds, pension premium institutions and pension insurers.

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Insight

The table below provides insight in several impactful topics of the intended new pension legislation.

Topic	Current pension legislation	Intended pension legislation
Applicable	Until 2022	From 2022
Plan types	DC	Individual DC
	DB	Collective DC
	Collective DC	
Grandfathering	NA	From 1-1-2022 continuation of existing DB allowed until 2026 Continuation of DC plans on 1-1-2022 existing from 2026 possible, but for existing members at 31-12-2025 only.
Annual pension contribution	Progressive – age dependent	Fixed – age independent
Annual pension accrual	Fixed – age independent	Regressive – age dependent
Maximum annual contribution	Derived from maximum annual accrual	Derived from maximum contribution rate: between 30%-33% of pension base Extra 3% of pension base for additional pension accrual until 2036 for compensation measures

Important deadlines

Early 2021 for DB-plans

If a DB plan is in place, strategic advice is required before 2022, preferably starting in February/March 2021, to ensure the company has the full scope of options at its disposal as well as sufficient time - at least six months - to properly implement the change.

Early 2021 for DC-plans

Even for DC, 2022 can be a crucial deadline. We therefore advise companies to assess their options as soon as possible, to ensure they are aware and can take full advantage of the possibilities of the new pension legislation, particularly with respect to grandfathering options.

How can we help you?

The intended new pension legislation will – most likely – have a major impact on your current collective pension plan. We can assist on the following topics and more:

- Strategic advice on if and how to go forward with respect to DB-pension plans, keeping in mind that this type of pension plan will cease to exist from 2026.
- Strategic advice and assessment of possible compensation for current DB members.
- Drawing up a complete and workable transition plan which includes all relevant actions.
- Determination of the flat rate pension premium for the new (hires) pension plan.
- Performing a balance sheet & future benefit cost impact analysis of cash- (local) and accrual (IFRS/USGAAP) accounting.
- Other pension related topics.