

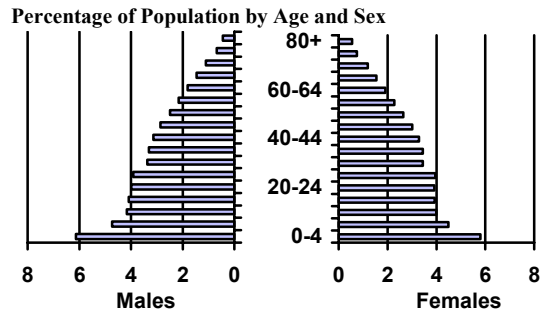
NETHERLANDS

The Netherlands' population has aged rapidly over the past 50 years. The figures at right show the percentage of the Netherlands' total population by five year age groups separately for males and females. In 1950, the Netherlands' population distribution formed a pyramid shape, where each successively younger age cohort represents a larger portion of the total population. However, there is a slight indentation for several younger cohorts caused by a drop in fertility rates during the Depression and WWII.

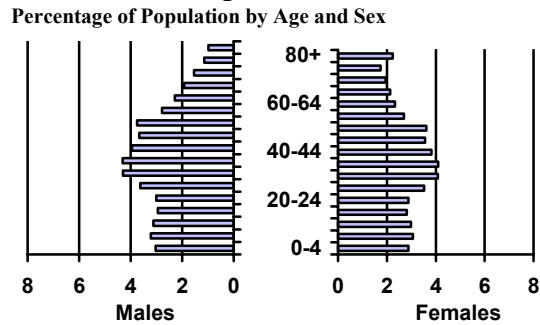
By 2000, the Netherlands' birth rate fell to 1.5 from 3.06 in 1950, and life expectancy rose 5 and 8 years for males and females respectively. These factors caused the population structure to shift to a shape that more resembles a pillar, where the total population is equally distributed among the age cohorts. The bulge in the middle-aged cohorts represents the surge in fertility rates following WWII that produced the baby boom generation.

Looking to the future, the anticipated mix of low fertility rates and rising life expectancy will lead to fulfillment of a pillar formation of the population structure. By 2030, the average age in the Netherlands will be 45, up from 39 today.

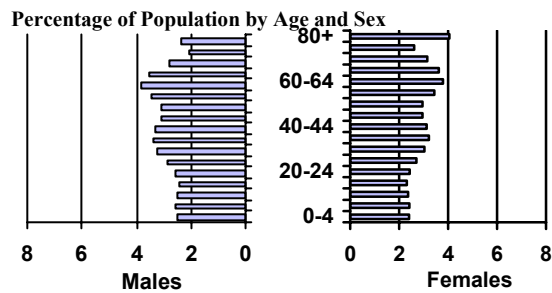
Netherlands' Population Structure in 1950



Netherlands' Population Structure in 2000



Netherlands' Population Structure in 2030



Source: UN Population Division, World Population Prospects (The 2000 Revision).

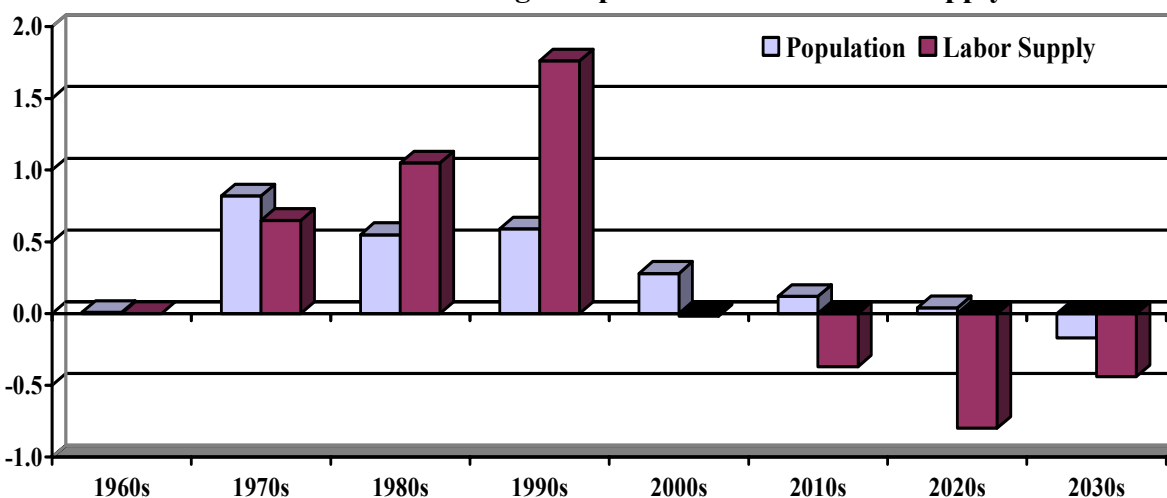
Demographic History

	1950	1960	1970	1980	1990	2000
Life Expectancy at Birth						
Males	70.90	71.10	71.10	72.80	74.29	75.60
Females	73.40	75.80	77.00	79.40	80.20	81.00
Life Expectancy at 65						
Males	-	78.76	78.30	78.70	79.72	80.33
Females	-	80.52	81.38	83.16	83.96	84.51
Fertility Rate	3.06	3.17	2.06	1.52	1.58	1.50
Net Migration Rate	-1.22	0.31	1.17	0.39	1.27	0.95

A critical component of a society's ability to expand its production of goods and services is the growth of its labor force. As the Netherlands' population aged over the past half-century, its labor force has undergone changes as well. Soon after the end of World War II and persisting throughout the 1960s, many industrialized societies, including the Netherlands, experienced a significant spike in birth rates that produced the generation known as the baby boom. Labor supply growth increased over the 1970s, as the baby boom generation entered the labor force and continued to grow through the 1990s. This is also partly the result of an unprecedented number of female members entering the workforce as well as the up tick in net migration rates over the same time period. Low fertility rates over the last few decades caused population growth to slow considerably. This created a period of high labor force participation between 1970 and 2000. As a result, total dependency rates in the Netherlands fell by about 37 percent while youth dependency fell by about 52 percent.

As the baby boom generation begins to retire, the expansion in the Netherlands' labor supply will begin to grow at a slower pace than the population over the current decade. This is caused by the combination of several factors- prolonged low fertility, improving life expectancy and a greater proportion of the population in age groups that have low propensities to work. In fact, by the 2010s these forces will actually cause the workforce to shrink by 0.4 percent per year and rise to as high as 0.8 percent per year in the 2020s. As a result, the Netherlands will face a much greater percentage of its population being inactive, reflected by nearly a 45 percent increase in the total dependency ratio and over a 97 percent rise in old age dependency rates between 2000 and 2030

Annual Percent Change: Population versus Labor Supply



Source: World Bank, World Development Indicators database

Dependency Ratios

	1970	2000	2030	% change 1970-2000	% change 2000-2030
Youth- (Inactive pop 0-19)/ LF 15+	0.84	0.40	0.38	-52.34	-5.14
Aged- (Inactive pop 55+)/ LF 15+	0.40	0.38	0.75	-4.43	97.66
Total- (Inactive pop 0-19 and 55+)/ LF 15+	1.24	0.78	1.13	-37.00	44.79

Source: Sources: International Labor Office, LABORSTA database, current through 2001; UN, Population Division, World Population Prospect (The 2000 Revision); OECD, CDE database on labor statistics, current though 2002

Old Age Pension System

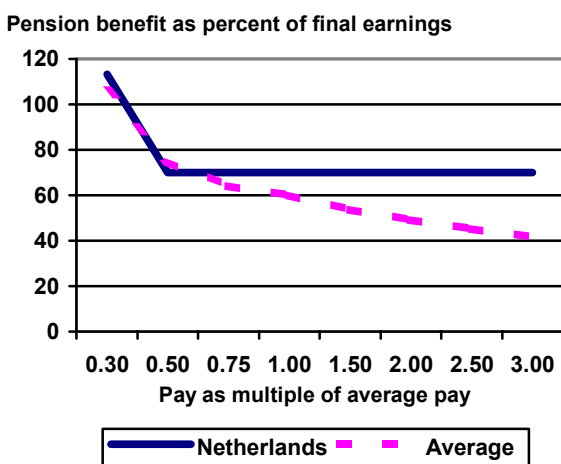
The old age pension system in the Netherlands is made up of a two-tier system consisting of a flat-rate public benefit plan and earnings related occupational scheme. To qualify for the full flat-rate public benefit in the Netherlands requires 50 years residence from age 15 through age 64, and if resident and earning, if contributions have been made. Gaps in residency or in the contribution records result in a pension reduction of 2 percent for each unexcused year. People earning less than roughly 15 percent of average earnings are excused from contributions and there is a ceiling at just over twice average earnings. The full benefit from the basic scheme is payable at age 65 and covers roughly 35 percent and 49 percent of average earnings for a single person and a couple, respectively. Benefits are indexed biannually in line with the net minimum wage. To finance the program, the insured contribute 17.9 percent of income for the old-age pension and employers contribute 5.85 percent of payroll, plus a variable contribution for the disability pension.

While occupational pension plans are not mandated by law in the Netherlands, industrial agreements to provide such benefits ensure that 91 percent of employees are covered by such a plan – 95 percent of which are defined benefit. Thus, these schemes can be thought of as quasi-mandatory. Employers can opt out of the industry-wide scheme for their own plan if benefits are equivalent. Regulations now ensure that the benefits are highly portable, requiring immediate vesting and transfer of pension rights between schemes: the new employer must assume the previous employer's pension liabilities. While there is no legal requirement, most benefits in payment are indexed to earnings. The public and occupational schemes are integrated such that the tax code allows a maximum benefit of 70 percent of final pay from both the public and private systems, a process known as 'franchising'.

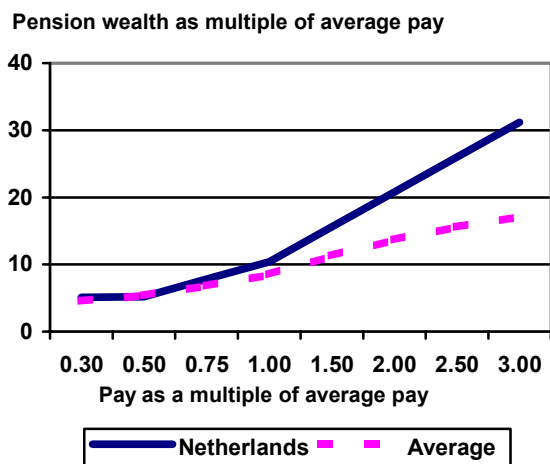
As shown in the graphs below, the Netherlands' pension system provides income support for low career earners, roughly in line with the OECD average. Higher earning individuals on average receive the statutory maximum benefit from the public and private pension schemes at 70 percent of their final salary. As a result, workers earning average and above average pay over their career can accumulate higher rates of pension wealth than the OECD average. While the pension costs as a share of GDP are expected to rise roughly 43 percent for the OECD average between 2000 and 2050, the Netherlands pension costs are anticipated to nearly double, reflecting the richness of their pension scheme combined with an aging population.

Source: Whitehouse, Edward (2003) and Social Security Administration, Social Security Programs Throughout the World (2002) and Dang et al. (2001).

Gross Replacement Rates
Netherlands v OECD Average



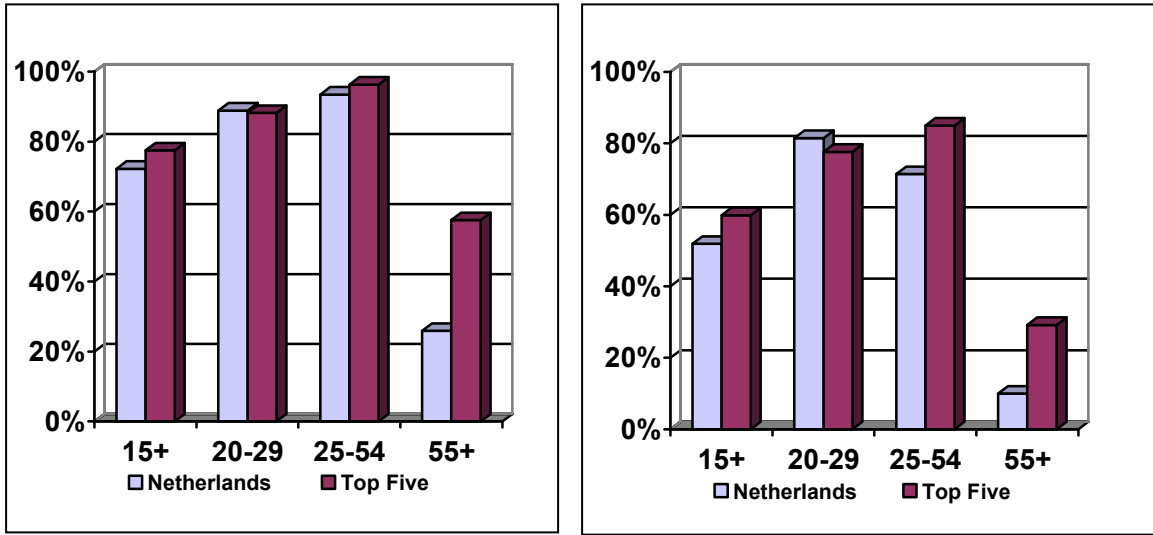
Gross Pension Wealth
Netherlands v OECD Average



Source: Whitehouse, Edward (2003)

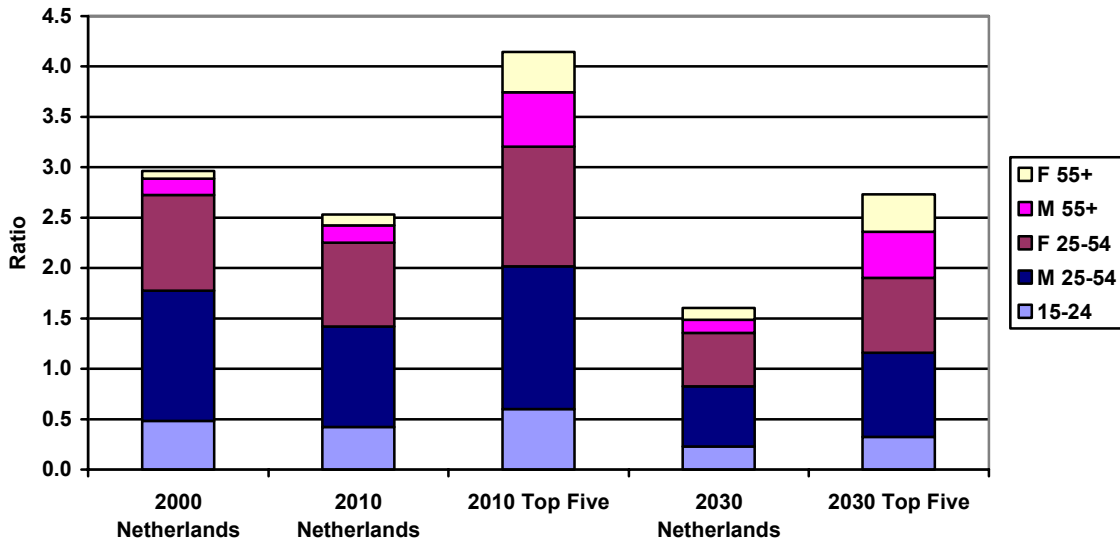
Notes: Pension wealth estimates are a multiple of economy-wide average.

Labor Force Participation Rates: Netherlands v Top Five OECD Country Composite
 Males Females



Source: OECD, Corporate Data Environment database on labor statistics, current though 2002

Ratio of Workers in the Netherlands 15+ to Retirees 60+ in 2000, 2010 and 2030 and Under Alternative Assumptions of Old Age Participation Rates for the Top Five OECD Countries



Source: UN Population Division, World Population Prospects (The 2000 Revision); OECD, Corporate Data Environment database current though 2002

A major source of the burden caused by demographic aging is due to rising dependency rates. In the coming decades, the Netherlands will need to figure out how to support a growing inactive population with fewer workers. A remedy to this problem is to adopt programs that promote greater workforce participation at all ages. Some countries excel at achieving high workforce participation across various age and gender groups. The figures above show how the Netherlands' labor force participation stacks up next to the average of the Top-five OECD nations. The Netherlands has relatively high rates of labor force participation among younger cohorts – ages 20 to 29 years old. However, activity rates in the Netherlands fall short of rates in the Top-five countries for nearly every other age and gender group. Most noticeably, older individuals participate in the labor force to a much lesser extent than those in the Top-five countries. If the Netherlands adopts measures to increase labor force participation of older age groups (55+) to rates similar to the Top-five OECD nations, it could significantly reduce its old age dependency rates. As shown in the figure above, if the Netherlands maintains its current activity rates between 2000 and 2030, the ratio of workers to retirees is expected to fall from nearly 3.0 to 1.6. However, by adopting policies to entice workers to defer their retirement at rates similar to those achieved by the Top-five OECD nations, the Netherlands could reduce its dependency burden by raising its activity rate to 2.7 workers per retiree in 2030.