Pension scheme for employees in six steps

A guide for employers

SOCIAL AND ECONOMIC COUNCIL

A pension scheme for employees in six steps. A step-by-step plan for employers

A supplementary pension scheme is an important and highly valued employment condition for employees. However, there are still employers who do not offer a pension scheme to their employees (around 10% do not have a supplementary pension scheme in place). This step-by-step plan has been devised to encourage the establishment of pension schemes and to make it easier for employers to arrange one. The aim of this step-by-step plan is to enable any employer (who may or may not have expertise on pensions) to set up a pension scheme that is a good fit for them. The step-by-step plan outlines and explains in simple terms the steps to be taken. In case you still have any further questions, you can always contact the SER notification and infomation point or consult a pension advisor.

October 2021

Summary of the steps to be taken

Step 1
Check whether a pension scheme for employees is compulsory or not.

If yes: register the employees, incorporate the pension scheme into the employment conditions and inform employees about the scheme.

If no: proceed to step 2

Step 2
Contact a pension advisor.

Step 3
Make an inventory of the options for your own employees and what their wishes are.

Step 4
Select what the pension scheme covers.

Step 5
Select a pension provider.

Step 6
Incorporate the pension scheme into the employment conditions and inform your employees.

Why should you arrange a pension scheme for your employees?

Pension is income for later in life, yet it can also provide an income in case an employee is incapacitated for work, or to provide a source of income for dependants if an employee dies. Entering into a pension agreement with employees helps them arrange this income. The earlier this is started, the more likely it is that an adequate pension can be built up. Apart from employment conditions that have obvious value at that point in time (such as wages and holidays), a pension is one employment condition whose value doesn't become apparent until later. In the Netherlands, it is common practice for employers to offer their employees a pension scheme. As a good employer, it is important to have a pension scheme in place for employees to prevent a significant drop in income. For example, when an employee reaches retirement age and the state pension becomes payable, if an employee becomes incapacitated for work, or to prevent dependants from being left without a source of income if an employee dies. In addition, having a pension scheme can make an employer more attractive to new employees and strengthen the loyalty of existing employees.

It is also important to talk to employees about the pension scheme as an employment condition, as this can help you understand what they need in terms of income later on in life. It is also an opportunity to discuss what the employee's wishes are with regards to coverage for their dependants in the event of death or incapacity for work. After all, pensions cost money now, so decisions need to be made now. It is important that both employers and employees are aware of the choices that are available and the consequences of those choices.

If it's decided to offer a pension scheme to employees, then all employees will participate in the pension scheme. Consequently, the pension scheme is the same for all employees.

A business owner employs staff (or is considering employing staff) and there are questions about the pension scheme as an employment condition.

As a business owner, you may already be employing people or you may be considering employing people. Agreements are made with the employee(s) about the employment conditions. These include wages, working hours, overtime and holidays, as well as a pension scheme. A pension is a kind of deferred salary and therefore, it is an important employment condition. After all, it is income that is paid out later in life which helps prevent poverty in the event of death, incapacity for work or retirement. By concluding a pension agreement with employees, the employer ensures that an income can be paid out later on. In some cases, an employer is under an obligation to offer a pension scheme to employees and the details of the pension scheme are also predetermined. In other cases, an employer is free to choose whether to offer employees a pension scheme agreement, and the employer can decide for themselves what that scheme looks like.

The purpose of this step-by-step plan is to provide business owners/employers with straightforward guidance on the pension scheme as an employment condition, and on how to arrange a pension scheme for their employees.

Step 1

Check whether a pension scheme for employees is compulsory or not

As an employer, you should first check whether there is a legal obligation to set up a pension scheme for your employees. This may be the case if work is carried out within the company that falls under a so-called compulsory scheme for a sector pension fund. It may also be the case that the company falls under a collective labour agreement (CLA) that requires employees to participate in a pension scheme. In the Netherlands, many employers fall under such compulsory schemes, including employers in the construction, hotel, metal and engineering industries.
You should therefore check whether there is a legal obligation for employees to participate in a particular pension scheme (through a sector pension fund or CLA). If in doubt (e.g., because there is some uncertainty about the sector in which the company operates), information can be obtained from the main sector pension funds and industry organisations, or from a pension advisor.

Please note: if an employer is required to join a sector pension fund, it is important to do this immediately and to enrol employees in that sector pension fund. Failure to do so exposes the employer to significant financial risk. In such cases, the employer will have to join at a later date and enrol the employees retroactively. This means that all overdue pension premiums will have to be paid. This could lead to substantial fees for backdated premiums having to be paid, especially if the non-enrolment period turns out to be lengthy. Moreover, the company's main business activities may have changed over the years, which means that the company may well fall under a compulsory scheme at a certain point in time. It is therefore recommended that a periodic check be done to see whether the main business activities and the SBI code still match.

If, as an employer, you are not under an obligation to offer employees a pension scheme through a compulsory scheme or CLA, it is up to you to decide whether you want to negotiate a pension scheme with your employees and how to go about it.

Action to be taken:
If there is a compulsory scheme in place, contact the respective pension fund and join that pension scheme. If the employer does not fall under a compulsory scheme, then proceed to step 2.

Step 2
Contact a pension advisor

An independent pension advisor can help with the preparations to arrange a pension scheme that suits the needs of the company and the employees. Contact several pension advisors and arrange a few obligation-free introductory meetings to compare their fees and working methods.

Action to be taken:
Contact a pension advisor that matches the situation at hand.

Step 3

Make an inventory of the options and wishes of your employees

If there is no obligation to join a sector pension fund, an employer has to undertake the task of arranging a pension scheme themselves. But what does that involve?

We can already list the following issues that call for consideration:

- What is the financial scope of the company where pensions for employees are concerned?
- How much say do employees want and/or should they get when it comes to pensions?
- Is there a works council (more than 50 employees) or is there a collective labour agreement that trade unions are involved in and where pensions are arranged or can be arranged?

The more careful thought that is given in advance to the above matters, the better a pension advisor will be able to help and the lower the consultancy fees will be.

How do you go about arranging a pension scheme for your employees?
First of all, assess the financial scope the company has available to provide a pension scheme. Then talk to your employees about pensions. Find out what they want and what the options are within that financial scope. Have a look at what fits in with what the company has at its disposal and what the employees want. In the first place, this concerns the employee's income later on in life. But it also concerns the surviving dependants' pension and pension accrual in the event of incapacity for work. Pensions are a complex subject with a myriad of legal requirements. Therefore, it is wise to seek advice if you decide to arrange a pension scheme for your employees. Setting up a pension scheme can be quite a big step. However, it is possible to start with a more modest pension scheme, which leaves the door open for the scheme to grow as the business develops, or one where employees are given the opportunity to easily (and in a tax-friendly way) contribute more to their own pension. Before consulting a pension advisor, you can also ask other business owners what they have done and what kind of pension scheme they have in place.

Action to be taken:
Make preparations and enlist the help of a pension advisor.

Step 4
Select what the pension scheme covers

Together with a pension advisor and in consultation with employees, choices can then be made about, for example:

- The amount of the pension contribution and the way it is divided up between employee and employer.
- The choices that employees themselves can make within the pension scheme.
- The amount of coverage for a surviving dependant's pension.
- The possibility to continue accruing pension in the case of incapacity for work.
- Coverage for an incapacity for work pension.

Action to be taken:
Discuss and select what the pension scheme covers.

Step 5

Select a pension provider

The next step is to decide which provider will administer the pension scheme. This can be an insurer, a premium pension institution (PPI) or a general pension fund (APF). In some cases, it is also possible to join a sector pension fund on a voluntary basis, in which case it is usually the scheme offered by that sector pension fund that is chosen. In some sector pension funds, deviations from the basic scheme are allowed. It is also possible to set up your own pension fund, but this is not an obvious choice for an entrepreneur just starting out.

Apart from the costs and practicability of the scheme, factors such as good communication, service provision and employee participation also play a role when it comes to selecting a pension provider.

Action to be taken:
Select a pension provider.

Step 6

Incorporate the pension scheme into the employment conditions and inform your employees

As an employer, you have now entered into an administration agreement with a pension provider and into a pension agreement with your employees. It is important that employees are properly informed about this and what is and what is not included in the pension scheme. Employees must also be registered with the pension provider. Payroll administration must also be adjusted. Keep in mind that the pension premium contribution (the employee's contribution) must be included on pay slips and annual salary statements, but also that the pension provider receives the total pension premium contribution (on time) and that the payroll administration is adjusted accordingly. The payroll administrator can help with this.

Action to be taken:
Register employees, update administrative details, tell employees the good news that a pension scheme has been set up for them and update their employment contract.

In a nutshell: How does it work in practice?

If the employer is **legally required** to provide a particular pension scheme to employees on account of a compulsory scheme or collective labour agreement, then:

- Discuss the pension situation at hand with employees;
- Register the company and employees with the sector pension fund. The sector pension fund has more information on the registration procedure, although the payroll administrator may also be able to help;
- Update employment contracts with employees with a reference to participation in the pension scheme;
- Inform employees, for example, about the specifics of the scheme, the choice of options and the division of the premium contribution between the employer and employee (the pension fund can often help with this) and provide practical information about the sector pension fund (which employee data does the fund receive, how can they be reached, what is its website, and what kind of information does the fund itself issue).

If there is **no legal obligation** for a pension scheme through a compulsory scheme or collective labour agreement, but a business owner is willing to provide one to their employees:

- Discuss the pension situation with employees, making clear what the consequences of not building up a pension on time are.
- Select a pension advisor.
- If there is a form of representation such as a trade union, works council or staff association, discuss the advisability of a pension scheme with them as well.
- In consultation with employees, choose a type of pension scheme and a pension provider.
- Set out the agreements with the pension provider in an implementation agreement.
- Register the employees with the pension provider. Both the pension provider and the payroll administrator can help with this.
- Update the employee employment contracts to include a reference to participation in the pension scheme.
- Inform employees, for example, about the specifics of the scheme, the choice of options and how the premium contribution is divided up between the employer and employee (the pension fund can often help with this), and provide practical information on the sector pension fund (which employee data does the fund receive, how can they be reached, what is its website, what kind of information does the fund issue itself).

If a compulsory scheme or a collective labour agreement with a pension scheme is not in force, and there is a good reason not to provide a pension scheme, it is important to explicitly point this out to employees. In such cases, employees can be offered a remuneration so they can make their own pension arrangements. You should then inform your employees about the options for setting up their own pension. Again, it is advisable to choose an advisor who can help you set up this type of remuneration. If the decision is made to provide remuneration, employment contracts will need to be amended as well.

Colophon | Social and Economic Coumcil | Communication department | Bezuidenhoutseweg 60 |
| Postbus 90405 | 2509 LK Den Haag | 070 3499 525 | communicatie@ser.nl | www.ser.nl |
| Photos Shutterstock, Wilmar Dik |