The rise and fall of the Dutch employee savings schemes

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Abstract Individual savings accounts are considered an innovative way to privatize and reorganize social security in Europe. The Dutch fiscally facilitated employee savings schemes are a case in point. They are about choices, empowerment and control of employees over working hours; and are examples of the European flexicurity strategy to promote equal access to quality employment. In 1994, Dutch employees got the opportunity to save tax free in the voluntary Salary Savings Scheme. From 2006, they could also choose to save in the innovative Life Course Savings Scheme. In 2010 the government decided to combine the schemes into the so-called Vitality Scheme, aimed at giving employees and entrepreneurs more freedom and responsibility to shape their career. However, in 2012 the government decided not to introduce this scheme and the Dutch saving scheme era ended. This paper analyzes these developments and draws policy lessons from the Dutch experience. We compare the main characteristics of the Dutch Salary Savings Scheme, the Life Course Savings Scheme and the (proposed) Vitality Scheme and critically discuss the main (theoretical and policy) assumptions behind these schemes. We also compare the characteristics of employees who participated in the Salary Savings Scheme, the Life Course Savings Scheme and in neither schemes both bivariately and in a multinomial logistic regression analysis, using, data from 35,000 Dutch civil servants interviewed in 2008. Based on the findings of our investigation, we end with some recommendations that may help develop efficient and effective employee savings schemes.

1. INTRODUCTION

In Europe, extending workers' freedom of choice and work-life balance are policy arguments of increasing importance. Offering more choices may improve efficiency, because differences in individual preferences can better be satisfied and average individual satisfaction may thus be higher. More 'time sovereignty' is expected to improve work-life balance, because it allows employees to organise their working time according to their needs and interests. This is expected to increase both the quantity and the quality of labour supply and to safeguard an adaptable labour force generating persistent productivity growth (Bovenberg (2005), Delsen and Smits (2010)). Individual savings accounts are considered an innovative way to privatize and reorganize social security in Europe (D'Addio and Whiteford (2007), Van Huizen and Plantenga (2009)). However, empirical evidence regarding the working and effectiveness of such schemes is scarce, because most existing schemes were only recently adopted. This paper aims to contribute to our knowledge about savings schemes by discussing and analyzing the extensive Dutch experiences with such schemes.

The first savings scheme was introduced in the Netherlands already in 1994. This Salary Savings Scheme (SSS, *Spaarloonregeling*) offered employees the opportunity to build up financial assets by saving, tax free, part of their salary. In 2006, this simple scheme was supplemented with a much more advanced one, the Life Course Savings Scheme (LCSS, *Levensloopregeling*), which allowed employees to save tax free to finance periods of unpaid leave. Four years later, the first Rutte government decided to merge the SSS and the LCSS into the new Vitality Scheme (VS, *Vitaliteitsregeling*), which aimed to further improve (self) employed people's choices concerning the balance between paid work, care, volunteering, education and leisure (Coalition Agreement (2010)). The VS was planned to be introduced in 2013. As part of the transition to the new scheme, the SSS and LCSS were abolished in 2012 (except for some transition arrangements for existing participants). However, in 2012 the government decided to cut spending and not to introduce the VS, thus ending an 18 year period of experimentation with savings schemes.

In this paper we look back at the Dutch experience to draw policy lessons from it. We discuss the design of the three savings schemes and compare the amounts saved. We compare the characteristics of Dutch civil servants who participated in the LCSS with those who participated in the SSS and those who did not participate in any scheme, using, data from 35,000 Dutch civil servants. On the basis of the findings, we make recommendations for developing effective fiscally facilitated individualised savings schemes.

2. THE DUTCH SAVING SCHEMES

2.1 Salary Savings Scheme

The voluntary Salary Savings Scheme (SSS), introduced in 1994 and abolished in 2012, was a tax expenditure to stimulate building up financial assets by lower-paid workers and to create flexibility in wage formation (Bikker (1994), (2002), Cox (2002)). The scheme allowed employees to save part of their gross wage, tax and social insurance premiums free. Table 1 summarizes the main characteristics of the SSS. Access to the funds was blocked for four years. The SSS did not require savings to be used for a particular goal. After four years, the saved amount could be withdrawn tax free and used freely. For specified purposes it could be withdrawn tax free within this four-year period.

Table 1 about here

Over time, the content of the SSS changed. It became more expensive for employers and less expensive for the tax authorities. The payroll tax for employers increased from 0% to 25% of the deposit. It was also made less attractive for employees. In 2001 and 2002 the maximum annual savings amount was frozen at €788 and in 2003 reduced to €613. The possibilities for early withdrawal gradually increased. Initially, deposits could only be used within the four-year period for purchasing a house or paying premiums for pension insurance. Later, it could also be used for compensation of wages foregone due to (partially) unpaid leave, coverage of training costs, child care costs and the cost of starting a business. The original purpose of sustainable wealth creation among employees became weaker. In 2003, 2005 and 2010 there were interim deblockings by the government, aimed at stimulating the economy.

In 1995, 29% of employees participated in the SSS and this increased steadily to 43% in 2000. Participation was much higher than the government expected, as were the costs for the Treasury. Because of these costs, the new Balkenende I government announced in its Coalition Agreement (2002) a plan to abolish the SSS and replace it by a LCSS. However, the major trade unions were against abolition, because the proposed new arrangement was less favourable. In the fall of 2003, after several years of discussions and disagreements between government and social partners, it was decided to introduce a new scheme, the LCSS, next to the SSS. As a compromise, it was determined that participation in both the SSS and the LCSS in the same calendar year would not be allowed (Delsen (2007), Delsen and Smits (2010), De Mooij and Stevens (2002)).

Besides the cost factor, the SSS suffered from other problems. Offering workers greater choice and thus greater sovereignty was accompanied by adverse selection on the labour market. Due to budgetary constraints not every employee was able to participate. Low income groups had low participation rates, especially among part-time workers. Whereas more than half of full-time employees participated, only one third of part-time employees did. Men participated more than women, those with a partner more than singles, and the participation rate increased with age and education level. The wage moderating effect was limited (see CBS (2001), De Mooij and Stevens (2002), Goudswaard and Caminada (2006), Tijdens and Van Klaveren (2002), Vording and Caminada (2000)).

In 2010, the new government-Rutte decided to combine SSS and LCSS into a new Vitality Scheme (VS). They mentioned the following motives to abolish the SSS: the scheme was complicated for workers, caused red tape and was expensive for employers. Also, banks offering salary savings accounts barely made a profit because of the combination of a low maximum annual amount and the deblocking possibilities (Tweede Kamer (2011a), (2011b)). On 1 January 2012, the fiscal facilitation of the SSS was abolished. The accumulated capital in the SSS was in principle freely available in 2012, but participants could also keep the credit and continue to use the tax exemption of the returns. The tax exemption would then automatically be reduced each year and expire by January 1, 2016.

2.2 Life Course Savings Scheme

The Life Course Savings Scheme (LCSS) introduced on January 1, 2006 and abolished in 2012 was an innovative individualised saving system that required employees to take personal responsibility for funding unpaid leave, to be used for caring for children or for ill parents, education, travelling, a sabbatical, or (partial) early retirement, while continuing the original employment relationship. Table 1 summarizes the main characteristics of the LCSS.

The aim of the LCSS was to create work-life balance over the life cycle, to increase freedom to plan the life course, and to stimulate the labour market participation of women and older workers. Employees had a legal right to participate in the LCSS. They could save up to 12% of their gross salary per year tax free, to finance periods of unpaid leave. The employee was free to choose the provider of the LCSS. It could be a bank, an insurer or an investment institution. The LCSS account could be a savings account, an investment product (shares) or an insurance product (in most cases a life insurance). Dutch employees are risk averse. Firm managers mentioned that over 90% of the LCSS participants choose the savings option (Kooreman et al. (2009)).

Employers were allowed to contribute to employee savings. The contributions had also to be provided - taxed - to employees who did not participate in the scheme. The maximum saving amounted to 210% of the last earned gross salary and could be reached in 17.5 years. In 2011 the modal gross annual wage in the Netherlands was €27,900; 210% was about €58,600. This amount would allow workers to finance three years of unpaid leave at 70% of their usual wage. Overtime hours, extra statutory holidays and compensation days could also be converted to savings.

Table 2 about here

Data on participation in the LCSS by Dutch civil servants (Table 2) show that the use of monthly wage (81%) was by far the most important way to finance participation in the LCSS. This was more important for women (84%) than for men (78%). For the other sources the opposite applied. Financing from allowances was the second most important, at 6% (men almost 9%; women 3%). The use of holidays (3%) was the least used source (men 4.0%; women 1.8%). The importance of monthly wage as a source decreased with age, while the importance of the other sources (in particular holiday) increased with age. Kooreman et al. (2009) found the marginal propensity to save in the LCSS to be larger for wage components with lower frequencies, like holiday allowance or 13th month.

The LCSS suffered from several problems. The administrative burden for employers was considerable. They had to keep contacts with the LCSS suppliers, check the cap of 210% of gross wage and check the choice between SSS and LCSS. Employees received an inflation indexed tax credit (€201 in 2011) for each membership year when leave was taken, regardless of the amount of the annual deposit. Until 2009, participating employees taking unpaid parental leave received an additional tax credit of 50% of the gross minimum wage per day of unpaid leave. Taxation was deferred until savings were withdrawn. Also, the returns on the fund were untaxed, which made it less favourable than the SSS. Whereas the SSS concerned an exemption from taxation, the LCSS concerned postponement of taxation.

Restrictions on spending freedom were also a problem. The money could only be used to finance unpaid leave, including early retirement. Moreover, only people with a job could take leave. Taking leave was not a right; it was only possible in consultation with the employer. This discouraged employees to participate in the scheme. Although the tax advantage of the LCSS did not increase with salary (Goudswaard and Caminada (2006)), lower-paid workers and less productive workers had less savings possibilities and thus were forced to work longer hours or more years. This indicates adverse selection. As such, the LCSS is a good example of the problems of the European ‘flexicurity’ strategy and policy instruments that treat men and women as equally individualised workers, equipped to choose when to move in and out of the labour market (Lewis and Plomien (2009), Maier et al. (2007)).

The LCSS suffered from more shortcomings. Participating employees who wished to take leave, but did not get permission of their employer were ‘forced’ to use the LCSS to retire early. The tax treatment encouraged the use of the scheme to retire early. If the savings were added to pension savings the LCSS tax credit expired. The contribution to employability was small. There was no provision that supported the use of the LCSS for training. Whereas early retirement was the most important motive for participating in the LCSS, study leave was the least mentioned (Delsen and Smits (2007)). Because of low participation, the scheme contributed little to reducing stress during the “rush hour of life”.

In 2006 the tripartite Social-Economic Council (SER (2006)) proposed several changes to the LCSS: use between two employment contracts, combining SSS and LCSS while maintaining the spending targets, widening access to people without employment contract, start-up self-employed and sole traders, use LCSS for specified leave (care and educational leave), and unspecified purposes (generally unpaid leave). The coalition agreement of the Balkenende IV government (Coalition Agreement (2007)) also mentioned changes to address shortcomings. The LCSS would be further expanded in order to support (permanent) employment participation throughout the working life, facilitate starting a private company, or to bridge the period between two jobs or transition to part-time work. However, these changes were not put through and in 2010 the new government Rutte I decided to abolish the LCSS by 2012, in order to make way for the Vitality Scheme. After consultation with the trade unions a complex and long-term transition arrangement was proposed (Van Oostwaard (2011), Tweede Kamer (2011a), (2011b)). The transition rules required employees with a balance less than €3,000 on December 31, 2011 to leave the LCSS. The balance was paid out; of which 20% untaxed. Participants with €3,000 or more on December 31, 2011 could spend the balance freely, and still deposit money, but from 2012 they no longer accrue the LCSS tax credit. The full balance was available in 2013; of which 20% untaxed. Since then, new participation in the LCSS was not allowed. The balances on January 1, 2022 will be paid out and taxed as wages.

2.3 Vitality Scheme (plan)

In 2010, the Rutte I government announced plans to integrate the SSS and LCSS - budget neutral - into a new Vitality Scheme (VS). Table 1 summarizes the main characteristics of the VS. The VS would be an individual flexible savings scheme that would support care obligations, following training, starting a business, demotion or part-time pension, but would not allow for early retirement (Coalition Agreement (2010)). People would get the freedom to use the credits of the VS quickly when they need additional financial resources. People could also decide freely how to spend the money. The government considered the VS especially advantageous in situations which involved an income decline, such as withdrawal for care leave, study and part-time pension (Tweede Kamer (2011a), (2011b)). The VS was planned to be introduced on January 1, 2013. However, in 2012, the Rutte II government decided not to introduce the VS for budgetary reason (Tweede Kamer (2012)).

Relative to the SSS and the LCSS the VS was meant to be more open. In line with the SER's suggestions (SER (2006)) and the Foundation of Labour (STAR (2008)) not only employees, but also entrepreneurs and self-employed without personnel/freelancers could participate. The VS was intended to extending working lives by providing a financial buffer in case of e.g. change of job, parental leave, income supplement of benefits or lack of contracts. The government expected approximately 1 million people to participate (Tweede Kamer (2011a), (2011b)).

The initial VS plan envisioned only saving to complement a partial pension. The social partners opposed this restriction (STAR (2011)), preferring to maintain the possibility to save for early retirement. If workers at retirement age still had a balance, they should be able to deposit this in their pension scheme to increase their pension. The worker himself at the end of his career-job should decide about the balance between early retirement and a higher pension.

The final VS proposal stated that saved amounts could be used freely. There were no particular goals for taking up savings from the VS. Initially, there were limits on using the VS to finance early retirement: anyone 61 or older withdrawing over €10,000 per year would be liable for income tax and tax on the credit (Tweede Kamer (2011a), (2011b)). This was later changed to age 62 and a maximum withdrawal of €10,000 per year (Kamp (2011b), MinFin (2011)). To prevent unintended tax rate advantages, taking the credit had to occur before reaching the pensionable age of 65 (Tweede Kamer (2011a), (2011b)). It was an incentive to retire early similar to the one in the LCSS. Moreover, although the credits are freely available, like in the LCSS workers would still depending on their employer to leave (Van Oostwaard (2011)).

The VS would allow saving each year - tax free - up to €5,000 from the net wage with a limit of €20,000. The fiscal facilitation of the VS would be similar to the LCSS. However, the VS did not include a flat tax credit, making it less attractive and less accessible for the lower income groups. The VS also lacked specific provisions to support spending saved money on care, parental or educational leave, although these would contribute to vitality and employability of the workforce. Withdrawal (part) of the balance would be taxed.

In November 2011, 15% of the employed workforce indicated to have plans to participate in the VS in 2013; a rate close to the one expected by the government. Planned participation rates of higher income earners were four to five times those of lower income earners (Knoef et al. (2011)). Part-time pension was mentioned by 57% of those who wanted to participate in the VS. The lower incomes intended to save relatively often for a buffer against unemployment. Saving for care leave, parental leave, study leave – which the government intended to encourage with the VS - or a buffer for incapacity for work were mentioned (far) less often.

3. THEORETICAL BACKGROUND

Understanding why people save is important when designing and evaluating savings schemes. Individualised savings schemes that give employees choice are based on fundamental (neoclassic economic) assumptions: employees can reserve a portion of their current income; employees want more freedom of choice; employees act rationally to maximise their self interest; employees are able to estimate their future needs and have good insight in the pros and cons of the available alternatives; employees can balance these choices and make well informed decisions; and employers are willing to honour the wishes of the employees concerning the timing of their leave(s).

In the neoclassical life-cycle model of saving, individuals rationally plan their consumption and saving needs over their lifetimes, taking into account the interests of their heirs (Modigliani and Ando (1957)). On balance, the life-cycle theory does a reasonable job of explaining saving behaviour. According to the neoclassical economic model, workers with higher income and older workers would save more. The hump-shaped savings profile over the life cycle largely followed from the hump-shaped income profiles (see Mitchell and Utkus (2004, Popovici (2012)). In addition, gender, education, and job tenure are expected to affect participation rates in savings plans and savings rates. Women are more risk averse and tend to judge financial risks as larger and more problematic than men. Women also enrol more in voluntary pension plans and contribute more than men. Higher levels of education allow people to be more efficient in making consumption decisions and to save more. People with unstable jobs are more willing to save, taking into consideration the job and income uncertainty (Mitchell and Utkus (2004), Popovici (2012)).

Individual choices have their appeal. People often feel they are better able to assess their own needs, and tend to feel empowered by (public) policies that give them responsibility. People tend to appreciate autonomy, and (increased) freedom of choice is seen as (more) autonomy. However, certain types of decisions and problems may be too complex for individuals to master. The behavioural finance literature suggests that people tend to save less than rationally desired because of time inconsistent preferences: they procrastinate, prefer the current state, are short-sighted and lack self-control. Moreover, savings choices are affected by decision framing (see e.g. Mitchell and Utkus (2004), Thaler and Sunstein (2003)). Procrastination and the fact that pension consciousness increases with age explain why people start saving late in life. This contradicts the maximizing objective of neoclassical economics. Moreover, many people do seek to maximize their personal welfare, yet they prove far more cooperative and altruistic than economic theory predicts (Mitchell and Utkus (2004)).

From a theoretical perspective, we know that when individuals face an actual choice situation, 'bounded rationality' (Simon (1957)) may play a role. Individuals are rational, but up to the limit of their capacity to receive and process information. People often are not fully aware or do not have a complete picture of the (future) consequences of a choice they make now (e.g. for the pension base or for social security coverage). A simple solution to this information fuzziness is to consider the predefined standard choice as good. This 'power of default' (Clausen and Koch (2002)) may easily prevail especially with newly introduced arrangements. Also relevant is the distinction made by Simon (1957) of two classes of people: maximisers and satisficers. Maximisers are people who always try to select the best option from the available options, but they are a small minority. The majority are satisficers, make choices that are good enough. Information costs may increase the rationality of satificing. Thus, although in mainstream economics offering (more) choices is considered superior, people may ultimately choose not to choose or even interpret the additional options as increasing the risk of making the wrong choice (Iyengar and Lepper (2000), Schwartz (2004)).

Extending workers' freedom of choice may be accompanied by adverse selection on the labour market, in particular when conditions are individualised and actuarially fair (see Delsen and Smits (2010)). Due to budgetary constraints, only certain categories of employees can afford to realise their leave and working time preferences. Workers who are well-off and highly productive may be expected to be able and willing to take leave or to opt for early retirement. For certain groups of employees, like young people at the start of their career, it may be more difficult to save money and accumulate a substantial balance. Low wage workers are *de facto* excluded from savings schemes. Also employees with limited free time (those with family responsibilities) will not have much time to save, although they are most in need of arrangements that allow them transitions into and out of the labour market. Individual saving schemes may increase gender inequality over the life-cycle, because women have fewer opportunities to save time and money than men.

4. DATA AND METHOD

We analyse micro data collected by the representative bi-annual survey among Dutch civil servants, the *Personeels- en Mobiliteitsonderzoek* (POMO) (MinBZK (2008)). The aim of the POMO is to gain insight into the competitive position of the public sector on the Dutch labour market. The target group was incumbent civil servants that have been working for the full year 2007. The sample consisted of 87,500 persons of which 34,962 persons completed the questionnaire (a response rate of 40%). Besides these micro data, we also use data from the Statline Database of Statistics Netherlands.

We present both tables with percentages and coefficients of a multinomial logistic regression analysis with participation in the LCSS, the SSS, or in neither scheme as the dependent variable and characteristics of the civil servants and their job as independent variables. We have data on whether the employees participated in the LCSS and the reason(s) for participation in 2007. Moreover, information was collected on the reasons why employees do not participate in the LCSS. The available background characteristics of the civil servants include gender, age, educational attainment, employment contract, contractual number of hours worked, salary, and household composition.

Previous research indicated that among the civil servants participation in the SSS and the LCSS is somewhat higher than in the private sector. However, the personal characteristics largely correspond (Delsen and Smits (2010)). We therefore assume that the results of the data for civil servants presented here are also relevant for other Dutch employees.

5. RESULTS

5.1 Participation and Amounts Saved 2006-2012

In Table 3 information is presented on employees' savings and participation. In 2006, the total amount saved in the SSS was €2,673 million. Between 2006 and 2009, savings increased by €1.6 billion. This increase was related to the interim deblocking in 2005 to stimulate the economy. As a result the accumulated savings was halved to 2.2 billion euro. In 2010 there was another deblocking, as part of the anti-cyclical economic policy. The strong drop by €2.7 billion in 2012 was related to the abolishment of the scheme. In that year, only 17% of the credits were kept to make use of the tax exemption on its returns.

Table 3 about here

The results show that employee interest in the SSS decreased continuously since 2006. The number of participants declined from 2.5 million (40%) in 2006 to 2 million (32%) in 2011, probably as a result of the austerity of the scheme and of switching to the LCSS. Although many employees participated in the SSS, the average balance was rather low from the perspective of building up financial assets. The savings of the SSS per employee increased between 2006 and 2009 by over €900 to a little more than €2,000. In 2010 as a result of the deblocking it dropped to almost €1,400, but then increased again to €1,600 in 2011.

For the LCSS we see a reversed pattern: low participation, but relatively high savings. In 2006, the first year of operation, the amount saved in LCSS was €896 million. This is partly because the premia paid into the early retirement funds and pre-pension funds, whose fiscal facilitations were abolished, could be used for the LCSS. The amount deposited in the LCSS accounts increased gradually, reaching five billion euro by the end of 2012. The development of the LCSS was the mirror image of the SSS. They were in part substitutes, because participation in both schemes in the same calendar year was not allowed and because they had overlapping goals. Participation in the LCSS remained, however, rather low. Participation in the LCSS increased to 270 thousand in the first three years, dropped back to 237 thousand in 2009 as a result of a change in design and then increased again to 247 thousand in 2011. This was about 4% of the working population, much less than the 32% participating in the SSS in 2011.

The savings per employee in the LCSS increased continuously from almost €3,900 in 2006 to over €18,800 in 2011. This comes close to the maximum savings amount that was allowed in the proposed VS. After the first six years, the amount saved per employee could provide the possibility to take unpaid leave and combine paid work and other activities. However, because of the low level of participation, few employees had that possibility. Total participation in the two savings schemes decreased in absolute and relative terms between 2006 and 2012 by over 400,000 employees from 44.0% to 36.2%. As discussed above, these developments were mainly policy driven.

5.2 Characteristics of Participants

Table 4 provides participation percentages of different categories of Dutch civil servants in 2007. The total percentages are higher than those for all employees presented in Table 3, suggesting that participation rates in both schemes were higher among civil servants than among other employees. The figures reconfirm that the SSS was much more popular than the LCSS. However, the personal characteristics of the participants in the two savings schemes largely (but not completely) correspond. In both schemes, female civil servants took part less than male civil servants; those with a partner and with children at home more than those without; those with a permanent contract more than those with a temporary contract; and those with small part-time contracts participated considerably less than those with full-time contracts. Participation in both schemes also increased substantially with the salary level.

The effects of participants' personal characteristics in the two savings schemes are partly as expected: for employees with limited disposable income and those with high expenditures in a certain stage of life it is more difficult to save. The effect of income is positive for both arrangements, in spite of differences in tax advantages for higher incomes between the schemes. Whereas the fiscal facilitation of the SSS was more advantageous for higher incomes than for lower incomes, the advantage of the LCSS usually does not increase with income (Goudswaard and Caminada (2006), Vording and Caminada (2000)). The higher participation of civil servants with children at home is unexpected from a budget perspective. This finding indicates that the schemes were not only complements, but also partly substitutes. They both seem to provide in a need of parents with children: saving for unpaid leave in the LCSS and saving for future expenditures in the SSS.

Table 4 about here

The most important differences among the groups concerned age and employment contract. Participation in the LCSS declined sharply with age, while participation in the SSS increased considerably with age. With regard to employment contract, we observe that people on permanent contracts participated much more in the SSS than those with a temporary contract or prospect of a permanent contract. However, in the LCSS, people with prospect of a permanent contract participated the most. This indicates that the LCSS attracted in particular the young and new employees, while the SSS was used primarily by older and incumbent employees.

An explanation is that because of short sightedness, bounded rationality, incomplete information and complexity of the LCSS and the fear of the wrong choice, many people tend to stick to the standard, the default, which was the earlier introduced SSS (Van Rooij and Teppa (2008)). The effect of the contractual working week on participation rates was somewhat smaller for the SSS than for the LCSS. Note also that higher vocational education graduates (HBO-ers) participate less in the LCSS and more in the SSS. That the two systems serve different groups of civil servants indicates again the complementary of the schemes.

5.3 Multivariate Results

Table 5 presents the results of a multinomial logistic regression analysis of the differences between the participants in both schemes and between those participants and employees who participated in neither schemes. The first column of coefficients, which shows the differences between the employees participating in both schemes, makes clear that only with respect to gender and presence of a partner there are no significant differences between the schemes. For all other variables we see clear differences. The effects of age show that the LCSS appeals much more to the youngest age group than the SSS and that with increasing age participation in the SSS more and more gets the overhand. The fact that older civil servants participated more in the SSS and younger ones more in the LCSS confirms the complementarity of the schemes.

The higher participation of Higher vocational education (HBO-ers) in the SSS is confirmed in the multivariate analysis. This suggests that this group of civil servants opts for security of the SSS. We further see that employees with children at home participated significantly more in the LCSS than in the SSS. Care leave for these workers seems important. This also indicates complementarity of the two schemes. Finally, civil servants with prospects of getting a permanent contract took part significantly more in the LCSS than those with permanent contracts and those with the lowest (starting) salaries significantly more than those with lower-middle incomes. This again indicates that the LCSS especially appeals to starters at the labour market, who often also are at the start of their family career.

The other two columns with coefficients in Table 5 show the differences between participants in either scheme and civil servants who participated in neither schemes. We see that compared to nonparticipants, participants in the SSS are more often male, in the older age groups, and in the middle educational groups. Participants in the LCSS are younger than nonparticipants, but do not differ with regard to sex and education. For the other variables, the picture is rather similar for SSS and LCSS. Higher participation for civil servants with partners, with children at home, with permanent contracts, with higher incomes and who work over 20 hours a week.

5.4 Reasons for (Non)Participation in the LCSS

In the preceding sections 'objective' information on the characteristics of the participants in the schemes was presented. It is also of interest to have insight into the more 'subjective' reasons given by (different groups of) employees for their (non)participation. This will be done in this section. Given that the LCSS is the most advanced scheme, we will focus here on the reasons offered for (non)participating in this scheme.

Table 6 about here

Table 6 shows that early retirement is with 43% the most important reason for participation in the LCSS for both male and female employees. As expected the importance of this motive increases with age. After full early retirement, partial early retirement is the most important motive in the higher age classes. This fits the aim of the LCSS to increase the labour participation rate of older employees.

Parental leave was with 20% the third important goal for participating in the LCSS in 2007; as expected more so for females (31%) than for males (12%). For persons below 40 years it even is the most important motive, mentioned by one third of the participants under 30 and by almost half of the participants in the 30-39 age category. For employees who participated in the LCSS, taking unpaid parental leave was very profitable, as an additional tax discount applied, equal to 50% of the gross minimum wage per unpaid day of leave. In 2007 this parental leave tax credit was €3.76 per hour, with a maximum of €650 per month for a full timer taking full-time parental leave. For employees considering using parental leave in the future it therefore was very profitable to participate in the LCSS.

Holiday/travelling was another important motive (over 12%) to participate. For female civil servants this reason was somewhat more important than for male civil servants. This motive may seem to conflict with the participation aim of the scheme. However, holidays and travelling are also ways to recuperate and reload. This might contribute to employability and the further career and also lead to working more years before retirement. Notably among young adults this is an important reason (over 19%) to participate in the LCSS.

Sabbatical leave, care leave and education leave were the least important reasons for civil servants to participate in the LCSS. Sabbatical leave was mentioned by 8.5% of employees. The difference between males and females was limited and there was a hump-shaped relationship with age. Education leave was with 3.0% the least important reason for participating in the LCSS. This holds for men and women. The importance of education leave decreases with age. Even more than sabbatical leave, education leave directly contributes to the employability of employees.

In 2007 care leave was (6%) not an important reason for participating. However, over time it was gaining importance, as compared to 2006 it was mentioned twice as much (MinBZK (2006)). As expected this motive was more important for women than for men.

Like parental leave, care leave has a hump-shaped relationship with age. It is mentioned most frequently in the 30-39 years age group.

Table 7 about here

The most important reason given for not taking part in the LCSS (see Table 7) was that the scheme did not satisfy any need of the employee. Almost one third of the incumbent civil servants did not participate because of this reason; men over one third, women over one quarter. The second most important reason is that the SSS is a more attractive alternative (above 22%). This comes as no surprise, because many respondents already participated in the SSS and – as argued in the theoretical section – people suffer from inertia and most of them are satisficers, who tend to keep it with a choice that is good enough.

The third motive for not participating in the LCSS is that one cannot miss the money (20%). This illustrates the importance of purchasing power for participation in the LCSS, inherent to every individualised savings scheme, resulting in undesirable adverse selection. For male civil servants this motive is more important than for female civil servants. This argument is remarkably few times (15%) mentioned by the youngest age group, where it was expected to be frequent because of the relative low salaries. This finding puts the role of purchasing power into perspective. Apparently young people (and women) do consider the time off they receive in return later in life more valuable than older workers and men.

The LCSS was a recent innovation. About 19% of the non-participants indicated “I have not looked into it” and 7% opted for “I wait and see”. Females mentioned these motives more frequent than males. These motives were particularly important for young (under 30) civil servants (together 52%). This indicates that this group contained a substantial number of potential participants for the years to come.

Another important reason for not participating mentioned by 18% of employees was a preference for saving themselves. Saving by oneself increases one's autonomy, both with regard to depositing as with regard to utilising credit. Moreover, the government – certainly in the long run – may act untrustworthy and change the conditions of the LCSS. Finally, the complexity of the scheme (15%) was also an important reasons for not participating.

6. CONCLUSION AND POLICY RECOMMENDATIONS

The Dutch policies regarding savings schemes followed a zigzag course and had similarities with the traditional dance of Echternach, which involves two steps forward and one back. The government changed the conditions of the savings schemes several times and turned out to be an unreliable partner. It developed plan after plan, changed the existing schemes continuously, and finally abolished the existing arrangements without introducing the announced new Vitality Scheme. The result was counterproductive complexity, uncertainty and a disappointing ending.

The problems and discussions surrounding the Dutch schemes do however not mean that the schemes were unsuccessful. On the contrary. The SSS was a very successful scheme in which in its glory days over 40% of Dutch employees participated. Also the LCSS was over time gaining popularity among the groups for which it was meant. In fact, the Dutch experience makes clear that (1) there is substantial interest among employees for these kinds of schemes, (2) they have the potential to live up to their aims of promoting freedom of choice of employees and creating work-life balance over the lifecycle, and (3) they can be useful instruments of labour market policy to increase the quality and quantity of labour supply.

Based on the findings of our investigation, we end with some recommendations that may help develop efficient and effective savings schemes. The fiscal facilitation should be based on stable and structural policy frameworks entailing clear long term targets and political commitment. If policy makers consider it desirable that the workforce participates in a savings scheme, then its design should offer freedom of choice *ex ant* as well as *ex post*, limit adverse selection, and promote specific targets, including training.

The scheme should have at least the following characteristics to be successful - efficient and effective.

Firstly, the savings scheme needs to be accessible to lower-income, young, part-time and temporary working employees and participation should be a legal right. Accessibility can for example be achieved by the introduction of an annual flat tax credit like in the LCSS. An annual life course bonus that is transferred by the government to the account of the participant at the end of each year, proposed by the Foundation of Labour (STAR (2008)) is even more promising. This not only increases the visibility and the attractiveness, it also allows faster building a credit. Adding the possibility to borrow for leave is an additional option to enable access for young people.

Secondly, to make the savings scheme more interesting for middle- and higher income earners the maximum amount has to be sufficiently high. A maximum of twice the modal gross annual wage - in the Dutch context about €55,000 - seems a reasonable amount. Similar to the SSS, this can be combined with a sufficient long blocking period and specified premature tax free deblocking opportunities (Van Oostwaard (2011)). This helps channelling the use of the credit in the desired direction and also contributes to the effectiveness of the savings scheme. After the blocking period the saved money should be freely available to be used without approval by the employer. This guarantees that the employees can spent the saved amount for the purpose it was saved for and extends their freedom of choice. At the same time it promotes employment participation, because less leave will be taken if the credit is used for example for buying a house.

Thirdly, given the knowledge economy and the importance of human capital as a key factor for strong, competitive businesses and a ditto economy, the scheme should stimulate lifelong learning by the workforce, for example through an additional tax credit.

Fourthly, it is important to make working part-time fiscally more attractive, for example by increasing the tax credit. This not only facilitates combining work and care, but also allows coping with time pressure during the rush hour life and promotes gradual retirement through part-time pension (which in turn may promote longer working). Part-time work may also avoid returning and advancement problems.

Finally, some recommendations are given based on the behavioural finance literature. As discussed in the theoretical section, this literature stresses that people save less than is rationally desirable. An important policy recommendation from behavioural finance is that an actively opt out (unsubscribe) option from the savings scheme is preferable over an active opt in (registration) option (Kooreman and Prast (2010), Thaler and Sunstein (2003)). This libertarian paternalism affects individuals' behaviour while respecting their freedom of choice. It combats both choice overload and choosing not to choose. Relative to fiscal facilitation, automatic enrolment with the right to opt out is more effective and efficient to increase participation rates and amounts saved, especially for low-income earners, young employees, employees in SMEs and self-employed. Also, design the savings scheme carefully not to offer too much choice to the participants.

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Table 1 Major aims and ingredients of the Dutch Life Course Savings Scheme (LCSS), the Salary Savings Scheme (SSS) and the Vitality Scheme (VS)

	SSS	**LCSS**	**VS**
Major aim	Building up financial assets	Employment participation and work-life balance	Employment participation
Target group	Employees	Employees	Employees and entrepreneurs
Maximum savings	€613 of gross wage per year up to a maximum of €2,452	12% of gross wage per year up to a maximum of 210% of gross wage	€5,000 per year from net salary up to a maximum of €20,000
Participation a legal right	No	Yes	Yes
Free spending targets	Yes	No, only on unpaid leave	Yes, but from age 62 a maximum of €10,000 per year
Flexible withdrawal	No, blocked for four years	No, employer's consent required	Yes
Savings tax exempt	Yes	Yes	Yes
Returns tax exempt	Yes	Yes	Yes
Withdrawal tax exempt	Yes	No	No
Tax credit	No	Yes	No

Source: MinFin (2011), Tweede Kamer (2011a), (2011b).

Table 2 Funding of participation in Life Course Savings Scheme

	Total	Males	Females	<30	30-39	40-49	50-59	60+
Monthly wage	81.0	78.3	84.3	85.7	81.5	80.3	79.6	52.4
Allowances	6.2	8.8	3.1	3.1	3.6	6.4	9.8	0.0
End-year bonus	3.6	4.3	2.8	1.7	3.3	3.6	4.5	9.1
Holiday money	3.5	4.0	3.0	1.9	3.9	3.4	4.1	4.5
Holidays	3.0	4.0	1.8	0.4	1.1	3.8	4.8	13.6
Other	12.1	13.5	10.6	11.4	11.8	12.8	11.9	31.8

Source: Own calculations based on survey *Personeels- en Mobiliteitsonderzoek 2008* (POMO-enquête), MinBZK (2008).

Table 3 Savings, number of participating employees and saved amounts per employee of the Salary Savings Scheme (SSS) and the Life Course Savings Scheme (LCSS) on 31 December, 2006-2012

	Savings SSS (million euro)	**Number of employees SSS (x 1.000)**	**Savings SSS per employee in euro**	**Savings LCSS (million euro)**	**Number of employees LCSS (x 1.000)**	**Savings LCSS per employee in euro**
2006	2,673	2,467 (40.2%)	1,083	896	230 (3.8%)	3,896
2007	3,115	2,349 (37.3%)	1,326	1,750	259 (4.1%)	6,757
2008	3,546	2,192 (33.9%)	1,618	2,474	270 (4.2%)	9,163
2009	4,302	2,135 (33.2%)	2,002	3,263	237 (3.7%)	13,104
2010	2,898	2,113 (33.3%)	1,372	4,1(20	239 (3.8%)	17,239
2011	3,267	2,043 (32.3%)	1,599	4,648	247 (3.9%)	18,818
2012	548	n.a.		5,067	n.a.	

Source: Statistics Netherland statline, own calculations.

Table 4 Participation in Life Course Savings Scheme or Salary Savings Scheme by civil servants in 2007 (percentages)

	Life Course Savings Scheme	**Salary Savings Scheme**
Total	9.4	52.7
Gender		
Male	10.0	55.7
Female	8.6	49.5
Age		
<30	11.6	28.3
30-39	11.7	46.2
40-49	8.1	56.9
50-59	9.4	60.8
60+	1.2	60.8
Education		
Lower	8.8	49.1
Middle	9.6	51.0
Higher vocational education	8.5	55.6
University	11.4	50.7
Partner		
Without partner	8.4	44.7
With partner	9.6	54.8
Home living children		
Without home living children	8.4	50.0
With home living children	10.3	55.3
Employment		
Permanent	9.4	54.8
Prospect of permanent	11.1	26.1
Temporary	6.5	25.4
Gross weekly wage		
-€1500	7.4	37.9
€1501-€3000	8.8	48.8
€3001-€5000	11.0	62.0
€5001+	10.7	61.5
Contractual weekly working hours		
0-19	6.1	42.0
(20-28	7.7	53.1
29-35	9.6	54.2
36+	10.2	53.6

Source: Own calculations based on survey *Personeels- en Mobiliteitsonderzoek 2008* (POMO-enquête), MinBZK (2008).

Table 5 Multinomial logistic regression coefficients explaining participation in LCSS, SSS, or nonparticipation in 2007

	LCSS vs SSS		LCSS vs nonpart		SSS vs nonpart	
	B	se(B)	B	se(B)	B	se(B)
Intercept	-0.847**	0.143	-	0.142	-	0.086
Gender is female	-0.021	0.047	-0.080	0.048	-0.059*	0.029
Age						
<30	ref.		ref.		ref.	
30-39	-0.599**	0.073	-0.102	0.070	0.497**	0.047
40-49	-1.219**	0.076	-	0.075	0.803**	0.048
50-59	-1.076**	0.074	-0.071	0.073	1.005**	0.048
60+	-3.069**	0.227	-	0.228	0.817**	0.067
Education						
Lower	ref.		ref.		ref.	
Middle	-0.081	0.069	0.063	0.070	0.144**	0.041
Higher vocational education	-0.259**	0.068	-0.098	0.069	0.161**	0.040
University	0.049	0.080	0.046	0.082	-0.003	0.049
With partner	0.001	0.054	0.229**	0.055	0.228**	0.032
Home living children	0.210**	0.044	0.347**	0.046	0.137**	0.028
Employment						
Permanent	ref.		ref.		ref.	
Prospect of permanent	0.390**	0.113	-	0.104	-	0.074
Temporary	-0.225	0.149	-	0.140	-	0.082
Gross monthly wage						
€-1500	ref.		ref.		ref.	
€1501€-€3000	-0.181*	0.083	0.233**	0.082	0.414**	0.046
€3001-€5000	0.011	0.096	0.857**	0.096	0.846**	0.055
€5000+	0.000	0.128	0.802**	0.132	0.802**	0.079
Contractual weekly working hours						
0-19	-0.158	0.105	-	0.105	-	0.055
(20-28	-0.142*	0.067	-0.125	0.069	0.017	0.039
29-35	0.008	0.061	0.028	0.063	0.0(20	0.038
36+	ref.		ref.		ref.	

Source: Own calculations based on survey *Personeels- en Mobiliteitsonderzoek 2008* (POMO-enquête), MinBZK (2008).

Table 6 Reasons for participating in the Life Course Savings Scheme by gender and age group in 2007 (percentages)

	Total	Males	Females	<30	30-39	40-49	50-59	60+
Full early retirement	43.2	49.3	35.8	24.9	24.5	47.5	63.4	40.9
Gradual early retirement	30.9	34.0	27.2	25.5	18.3	36.1	39.5	36.4
Parental leave	20.4	11.6	30.9	34.4	48.1	8.5	0.9	0.0
Care leave	5.8	3.3	8.7	5.0	8.8	5.8	3.7	0.0
Education leave	3.0	2.9	3.0	6.2	4.2	2.2	1.1	0.0
Sabbatical	8.5	8.0	9.1	6.0	10.2	11.3	6.1	0.0
Holiday/travelling	12.6	12.0	13.3	19.5	11.0	13.7	10.0	13.6
Other	13.6	15.3	11.5	27.6	13.3	12.5	8.1	18.2

Source: Own calculations based on survey *Personeels- en Mobiliteitsonderzoek 2008* (POMO-enquête), MinBZK (2008).

Table 7 Reasons for not participating in the Life Course Savings Scheme in 2007 (percentages)

	Total	Males	Females	<30	30-39	40-49	50-59	60+
I do not need it	31.7	36.0	27.3	23.3	30.1	32.0	33.9	40.3
I can not miss the money	20.4	22.5	18.2	14.9	19.8	24.7	20.8	7.5
I can not miss the holidays	5.1	5.3	4.8	3.0	6.2	6.4	4.3	2.1
I consider saving by myself more attractive	17.5	17.0	18.0	16.8	18.5	17.5	17.9	12.9
I consider the Salary Savings Scheme more attractive	22.3	23.4	21.1	12.8	22.1	22.5	25.9	20.2
I have not looked into it	18.6	15.8	21.4	36.5	25.3	17.7	10.4	8.5
It is too much trouble for me	4.4	4.7	4.0	3.8	6.2	5.0	3.3	1.7
I consider the scheme too complex	15.3	16.0	14.6	11.5	18.0	17.2	14.7	5.9
I wait and see	7.0	6.7	7.4	15.5	10.2	6.7	3.4	0.3
Because of required consent of the employer to take up leave	5.9	5.8	6.1	4.7	7.4	6.6	5.6	1.9
Other	13.5	13.4	13.6	12.3	9.4	11.3	16.0	28.5

Source: Own calculations based on survey *Personeels- en Mobiliteitsonderzoek 2008* (POMO-enquête), MinBZK (2008).