

Towards a future that works

Main Recommendations

Committee on Labour Market Participation

16 June 2008

Contents

| | |
|--|----|
| Introduction | 1 |
| 1 Everybody is needed | 2 |
| 2 But the labour market doesn't always work... | 4 |
| 3 Proposals for a future that works | 5 |
| 4 Route 1: Get more people into work as soon as possible | 6 |
| 5 Route 2: Work security for everyone | 9 |
| 6 Route 3: Sustainable labour market participation | 12 |
| 7 A broader agenda for the future | 13 |
| 8 A future that works is a matter of urgency | 14 |

This report is a summary of the Committee's full recommendations, which are being published simultaneously as a separate document.

Introduction

The Committee on Labour Market Participation was requested by the Minister of Social Affairs and Employment in December 2007 to formulate recommendations for getting more people into work in the Netherlands and improving the operation of the labour market. The Committee's remit as defined by the Minister was as follows:

“The Committee will formulate recommendations to the Minister for measures to improve labour market participation and to ensure that people work more hours. The Committee will investigate, without any restrictions, what measures are necessary to bring about a structural increase in labour market participation in the Netherlands to 80% in accordance with the Cabinet's objective. The Committee will submit recommendations for both the short and the long term. The Committee will also make recommendations to improve the operation of the labour market with a view to improving the quality match.”

The Committee's most significant conclusion is that the Dutch labour market is about to undergo drastic change: 1) over the course of the coming decades, there will be more work to do but fewer people to do it; 2) globalisation will increase the requirements regarding the level of knowledge and adaptability of the labour force. The Netherlands needs everybody – quickly! – and everybody must be constantly employable.

The Committee sees opportunities and possibilities for making the discussion regarding work one of hope rather than fear. The aim will be to develop everybody's talents and to assist vulnerable groups to find work and enable them to participate. In order to make use of these opportunities, the Committee makes recommendations to:

- **get more people into work as soon as possible**
- **focus on sustainable employability and work security**
- **gradually ensure that people work longer.**

The Committee argues for a cultural shift, backed up by new measures affecting the labour market and social security. We must learn to value work. “Good employment practice” – on the part of both employers and employees – will be an inseparable part of that change of attitude.

All this demands a structurally different approach, one requiring a great deal of all concerned, but the result – a future that works, with a stronger economy and top-quality, affordable public services – will be worth all the effort.

But we first wish to call on the Cabinet to take the lead in getting down to work – urgently – with both sides of industry on the basis of our recommendations.

Committee on Labour Market Participation

Rotterdam, 16 June 2008

Peter Bakker (chairman), Lans Bovenberg, Peter Ester, Rens de Groot, Saskia Klosse, Jan Willem Oosterwijk, Dominic Schrijer and Anton Westerlaken.

1 Everybody is needed

The Dutch labour force will already begin to shrink from 2010 on. The country finds itself on the eve of a drastic change. Over the past sixty years, the labour force – everyone between the ages of 20 and 64 – has grown from more than 5 million to 10 million. That growth will soon come to an end, and from 2010 the labour force will begin to shrink. The large baby-boom generation will retire, but far fewer young people will be joining the labour market. In the period up to 2040, this will lead to a decline in the labour force of no less than one million people. Over the same period, there will be a slight rise in the total Dutch population and a major increase in the proportion of people aged over 65.

The demand for labour will continue to grow. Estimates show that the demand for labour will continue to rise sharply. In the period up to 2015, an extra 600,000 jobs will be created, but retirement and incapacity mean that another 2.6 million jobs will become vacant for which people are needed. For the first time in the country's history, there will therefore be a permanent situation of fewer people available to work than there are jobs. And that is not all: international competition will mean increasing shifts in sectors and in the requirements regarding educational qualifications. Greater demands will be made on employees and adaptability will become increasingly important. The challenge facing the country is to make as many people employable as possible and ensure that they remain so.

Immigration will not provide a solution to the serious shortage of workers; the number of people that the Netherlands – and other European countries – will need is simply too large.

The Committee notes that we know a great deal in this country about the supply of labour but little about the demand for labour and the expected trend in that demand. A better understanding of the future demand for labour – achieved by means of scenario studies, for example – is necessary so that we can be better prepared to confront changes in the economy.

We need to get more people into work. Increasing the level of labour market participation serves four objectives:

- **Continued economic growth:** Employers are aware that the key factor in international competition is employability. This means both quantity – are there enough people who can do the work? – and quality – are they actually capable of doing it? If we cannot provide enough well-qualified people, the economy will come to a standstill. Companies will increasingly have work carried out abroad, and those that cannot do so will lag behind in every respect. As a result, we will lose jobs, income, and competitiveness.
- **Top-quality public services:** There is already a shortage of labour in the education and care sectors, a shortage that is set to increase enormously. In the period up to 2020, the care sector will need an extra half a million workers, while education will require a quarter of a million teachers to replace the large numbers leaving the profession. Extra labour market participation is vitally necessary to maintain the availability and quality of our care and education facilities.
- **No concentrations of inactivity:** Even if the demand for labour is greater than the supply, unemployment and inactivity will still continue to exist. This hits people hard and is concentrated among specific groups. Unemployment among young people from ethnic minorities is almost double that among those with a native Dutch background. Unemployment also differs enormously between particular neighbourhoods and cities. We cannot accept this kind of exclusion. Everybody's talents, even at the lower level of the labour market, must be developed and utilised.
- **Affordable state pensions and social provisions:** In order to maintain our system of social services, the Netherlands needs to get more people into work. At the moment, ten workers cover the costs for two people aged over 65. By 2040, those costs will need to be covered by only five workers. Far less money will then be contributed to pay for old-age pensions, care, and other

social provisions, but the associated costs will continue to rise due to the increasing number of elderly people.

Everybody is needed, and that creates opportunities. Over the next few decades, we will need everybody. That offers opportunities for getting large groups of people into work who are now not involved, or only to a restricted extent. This means women, minorities, and people with only a low level of education, but also people with a disability who can work perfectly well if minor changes are made to the workplace. The growing demand for labour gives us the opportunity – but also makes it necessary – to develop the talents of every member of society.

A different attitude to work. The Netherlands needs everybody, but everybody must also participate in the work process. This new situation on the labour market requires a different attitude to work, a different culture. We need to revalue work. Work matters, and it is an important source of social contact, self-respect, and self-confidence. Work also helps integrate minorities and promotes social cohesion. The necessary cultural change will involve a different way of looking at work:

- Employees must be ready, willing and able to adapt their competencies to what is needed. It goes without saying that they will need to be flexible and adaptable.
- Training and employability must be an essential component of employment contracts, with the public sector taking the lead.
- Everybody will need to accept that the right to receive a wage or benefit is counterbalanced by an obligation to either be in education or participate in the work process. Whether someone accepts that obligation is no longer a voluntary matter.
- Employers must do everything possible to make better use of the talents of older people, women and minorities, and to provide opportunities for people with a physical or other disability.
- Every employer must invest in people so as to be able to compete successfully.
- Employers must offer employees attractive and appropriate working and business hours and good career prospects.

2 But the labour market doesn't always work...

There are five problems in the current labour market that prevent greater participation:

1. Some 900,000 people are unable to work even though they want to. These are people who want to work and can in fact work: people receiving unemployment benefit, supplementary benefit, or incapacity benefit, but also some 450,000 people who do not receive benefit. For various reasons, it is difficult for all these people to find work. They may have little or no education, they may be out of touch with the rhythm of working life, or they may have an occupational disability that means they require sheltered employment. Some of them may be victims of discrimination. In some cases, lack of motivation may play a role, perhaps because the wage they would receive if they got a job would scarcely exceed their current benefit. The efforts made to get these 900,000 people into work are currently too noncommittal.

2. Too many people work part time, sometimes for only a few hours a week. A lot of people work part time, especially women, whether or not they have children. In fact, four in every five women who work do so part time as opposed to one in every five men. In many cases, their job is only for a few hours a week. Part-time work is useful, and a good work-life balance fits in well with the Dutch attitude to bringing up children. But women continue to work for too long in jobs for just a few hours a week, even when their children are older. This means that the Netherlands works fewer hours compared to other countries. Working hours, careers, and the way work is organised are not in line with the needs and careers of women.

3. The labour market is closed to older people. The labour market for older people (55+) does not work effectively. Older people are insufficiently employable, and they often retire early. By way of illustration: only 14% of all the people aged over 55 who become unemployed are able to find work again within one year. Job mobility also declines significantly the older people are. Older workers change jobs or positions much less frequently, meaning that they learn less. This in turn has a negative effect on their employability. The result is that only one in three people between the ages of 60 and 64 has a job.

4. The education system isn't properly coordinated with the labour market.

Having a good education increases your likelihood of finding work. But the Dutch education system fails in a number of ways, and that is bad for labour market participation. The basic problem is that vocational education and the labour market are not properly matched. The number of young people who drop out of school is also unacceptably high. No fewer than one in eight leave without even basic qualifications, i.e. without an education that will get them a job, even though employers have a great need for properly educated employees. Another sign that something is amiss with the education system is the shocking fact that this country has 1.5 million people with only very low literacy skills. These people have hardly any access to the labour market.

5. Employability is unsatisfactory. The challenge facing us in the coming years will be to improve people's ability to adapt and to deploy our shrinking labour force as effectively as possible by increasing labour productivity. In order to do this, we need to invest more in employability. This applies particularly to people with only a low level of education and to older employees, the two groups that primarily account for the major unused labour potential. This indicates a structural problem on the Dutch labour market: permanent staff are too permanent and "flexible employees" (flexi-workers and self-employed persons with no staff) are not permanent enough. For both groups, there is too little investment in employability. Permanent employees have insufficient incentive to boost their employability and to tackle new challenges. After all, they already have a good position and that position is safe. When employees are on a flexible contract, employers do not have any interest in investing in their employability. This imbalance has a negative effect on the level of motivation and productivity within the labour force.

3 Proposals for a future that works

There are three routes towards achieving greater labour market participation for the long term.

The Committee recommends that every effort should be made, as soon as possible, to get more people into work and to invest in sustainable employability with a view to the future. We distinguish between three related routes:

Route 1: Get more people into work as soon as possible

We must invest a great deal in helping people find work and must introduce specific measures to make it easier and more attractive to work longer and to work more hours.

Route 2: Work security for everybody

Route 2 involves improving the operation of the labour market. There are three ways of doing this: 1) give all employees a **Work Budget** with which to keep their employability up to scratch; 2) convert the employment benefits system into a system of **Work Insurance** that encourages employers and employees to prevent unemployment; 3) make a single organisation responsible for integrating people who have difficulty finding work (that organisation should also bear the financial risk).

Route 3: Sustainable labour market participation

Route 3 will make it possible and attractive for people to gradually work for longer than only up to the age of 65. Increasing the retirement age in line with life expectancy is the most effective and socially responsible way of increasing labour market participation and at the same time strengthening public finances and guaranteeing collective facilities.

Work can start immediately on the measures making up Route 1. This will make it possible to help 2 × 200,000 people find work and will make 80% labour market participation feasible. Making a participation level of 80% permanent requires further measures; these are comprised within Routes 2 and 3. Implementing these routes will require public debate, but that does not mean we put off implementing them. Quite the contrary: public debate should commence immediately so that the labour market is ready to cope with the fundamental change facing the country.

4 Route 1: Get more people into work as soon as possible

The Committee makes the following five recommendations for getting more people into work:

1. Improve the reintegration system
2. Encourage part-timers to work more hours
3. Encourage people to continue working until they reach state pension age
4. Improve the match between the education system and the labour market
5. Improve employability.

1. Improve the reintegration system

At the moment, almost one million people who are capable of working do not have a job. We propose that at least a third of them – more than 300,000 people – should be assisted in finding work over the course of the next eight years. Those 300,000 will be on top of the 100,000 covered by the “Participation Summit” agreements with the Association of Netherlands Municipalities (VNG). This will be a major challenge, but the Committee is convinced that it can be met. We need to make more effective use of the methods that we have available and must put an end to what is currently a lack of any real commitment to getting people back to work, both among benefit recipients themselves and the benefits agencies. In order to help those extra 300,000 people into work, we make recommendations focusing on the benefits agencies, employers, and benefit recipients. The key measures we propose are:

- **Make use of the strength of the region.** The opportunities for getting more people into work are to be found in the region concerned. Municipalities, unions and employers organisations, the Centre for Work and Income/Social Security Agency (CWI-UWV), and the temporary employment agencies should get together on a regional basis and make binding agreements with a view to specific results, for which they will be held to account. To facilitate these regional arrangements, there will be a national “toolkit” and a taskforce to stimulate projects and initiatives.
- **Make it more attractive for employers to take on people who have been unemployed for a long period.** Introducing a temporary wage cost subsidy covering the long-term unemployed and a no-risk policy to cover sickness will make it easier for employers to take them on.
- **Require benefit recipients to look for work, and introduce financial incentives for doing so.** A labour market participation obligation will be introduced for everybody who has been receiving benefit for more than six months (as regards benefit under the Employment and Assistance Act [*WWB*], immediately). This will allow us to make everybody active, either through paid work or social activation. The Social Security Agency UWV and the municipalities should be called to account more closely and more strictly as regards a wider-ranging application of the available options, with sanctions being imposed if necessary. Working at the lowest level of the labour market can be made more profitable by introducing and further increasing the income-related earned income tax credit.

2. Encourage part-timers to work more hours

We need to make it more attractive and feasible for part-timers to work more hours each week. The effect of this will be considerable. Currently, 2.7 million women work part time. If each of them worked an extra five hours a week for 40 weeks, labour market participation would rise by 4%.

Our main proposals for employees, employers, and government are:

- **It must be more worthwhile for part-timers to work more hours.** The marginal pressure on second incomes must be reduced. With that in mind, the system of tax credits must be revised. The transferable tax credit will also be abolished for people with young children. The income-dependent combination tax credit for families with children will be increased and extended to families without children. Finally, the childcare allowance will be made dependent solely on the income of the higher-earning partner rather than on the overall family income.
- **Employers must offer more options for flexible working.** Employers must be more flexible and adaptable by offering jobs that fit in with school hours, or by introducing extended business hours so as to create more scope for dividing up the working week. The public sector should take the lead in offering flexible working hours.
- **Better facilities for looking after children before and after school.** There will be a national network of community schools with extended hours, open from seven in the morning until seven at night (the Swedish model).

3. Encourage people to continue working until they reach state pension age

Labour participation by older people needs to increase even further in the coming years. At the moment, it is still only one in three people aged between 60 and 65 who work. Working until one qualifies for the state old-age pension should once more be the norm. Our proposals for employees, employers, and government are:

- **Working longer must be more financially attractive and feasible.** The income tax credit for older people will be substantially increased so that they are required to pay less tax if they continue to work (a “work continuation bonus”). People will also have the option of utilising the credits they have built up under the life-course savings scheme funds after the age of 65.
- **Increase employers’ exemption from the obligation to pay into social security contributions.** Employers who take on older people will benefit from an increase in the exemption from the obligation to pay into social security contributions. This will make it more attractive for them to take on older people who have been unemployed for a long period.
- **The two sides of industry must do more to facilitate a gradual wind-down in working hours.** We urge both sides of industry to make better use of the existing opportunities for employees to gradually reduce the number of hours they work. A more effective personnel policy, one displaying greater awareness of an employee’s age and career, will take better account of the employee’s wishes and prospects.

4. Improve the match between the education system and the labour market

There needs to be a better match between school and work. Our main recommendations are:

- **There must be closer co-operation between preparatory secondary vocational schools (VMBOs) and industry.** This will bring back the principle of “learning on the job”. VMBOs should have not only a cross-sector programme but also trade school options targeting sectors with a shortage of qualified labour. This will improve the image of the training centre for pupils with learning difficulties. If pupils are free to choose the time at which to make their study decisions and can learn what they will need in practice, they will make better choices and more readily find work that is in line with their wishes.
- **Better coordination within vocational education.** There must be learning pathways running from VMBO schools to MBO schools (“senior secondary vocational education”), thus reducing the number of young people who drop out of vocational education.
- **An open system of vocational education.** There must be scope for private and public-private initiatives and for funding based on the diplomas gained by graduates and their chances on the labour market.

5. Improve employability.

In order to increase employability, we make a number of recommendations for employers/employees, the education sector, and the benefits agencies.

- **Digital e-portfolio.** Every member of the labour force will be entitled to a digital e-portfolio, i.e. an electronic inventory of their competencies, diplomas, experience, and accreditation of prior learning (APL). This will give people a better understanding of their position on the labour market and their career prospects, and of any need they have for further training.
- **Periodical talent analysis.** Talent analysis and APL procedures must be introduced on a large scale, with maximum use being made of the e-portfolio. The right to a periodical analysis of one's competencies and the right to APL assessment must be included in collective labour agreements, with mandatory arrangements for a "best-effort" obligation on the part of employees to undertake training.
- **Financial incentives.** The tax-free limit for training costs will be lowered, making it possible for people to get more tax relief on educational/training expenses.

Towards 80% labour market participation

The Committee expects that introducing the proposed re-integration measures will enable 300,000 jobseekers to find work. Together with measures affecting the education sector and the labour market, part-timers and older people, Route 1 will make it possible to move towards a labour market participation level of 80%.

In the short term, we will invest in helping the unemployed into work as quickly as possible. The Cabinet will need to consider how the necessary level of investment and tax relief can be incorporated into the budgets for the coming years. The Committee recommends devoting part of the structural yield from funding the state old-age pension from general taxation (see Route 3) to the work continuation bonus.

The primary long-term concern is whether funds can also be found to cover the increasing expenditure due to the ageing population. The combination of increasing the age at which people retire and receive their state old-age pension (Route 3) and funding the state pension from taxation will make a contribution to this in the longer term (see Route 3). The Committee also considers reform of the housing market – involving changes in transfer tax, mortgage interest tax relief, and rent allowances – to be important as regards both financing lower labour-related costs and further encouraging job mobility and labour market participation. See also the broader agenda on page 13.

5 Route 2: Work security for everyone

The character of the Dutch labour market is changing radically. Demand exceeds supply from the point of view of both quantity and quality. We need more people, and those people need to be more employable. This will require restructuring of the labour market. Over the next few decades, we will therefore need to focus on employability and work security. With that in mind, the Committee recommends:

1. The introduction of a **Work Budget** for everyone
2. Conversion of the employment benefits system into a system of **Work Insurance**
3. Making a single organisation responsible for people with a difficult position on the labour market.

The emphasis should be on preventing unemployment. The central focus should be on investing in employability, with the aim of ensuring work security.

Phased transition. The Committee favours a gradual transition to this new system, with the costs incurred by employers remaining the same and with employees' old rights and new security gradually blending into one another.

1. Work Budget: boost employability with a Work Budget for everyone

The Work Budget will be allocated to the individual, who will decide how it should be used. It will be linked to the individual and not to the job. The Work Budget will enable and encourage people to take control of their own work and their own life. This will make them less dependent on a specific employer or job and will provide work security. The Work Budget will be paid to everybody, both permanent and flexible employees.

- **Work Budget applicable to work and to income.** The intention of the Work Budget is to encourage employees to invest in their employability; it can also be used as an income supplement. As far as employability is concerned, we are thinking in terms of the employee improving his or her own knowledge, skills, and competencies. The Work Budget will function as an income supplement when the employee takes the option of semi-retirement, switches to a less demanding position, or is between jobs. It will also cover any temporary loss of income due to the employee undertaking care tasks or starting up his/her own business.
- **Everybody contributes.** All parties – employers, employees, social partners, and government – will help finance the Work Budget. That is only logical given that good employability is in everybody's interest.

Table 1. Contributions and potential financial scope for the Work Budget

| | Employers | Employees | Social partners | Government |
|---------------------------|--|---|---|--|
| Contribution: | Fixed statutory contribution | Voluntary contribution | Voluntarily agreed contributions | Tax support |
| Financial scope based on: | <ul style="list-style-type: none"> ▪ Lower pension contributions due to employees working longer ▪ Lower social security contributions due to Work Insurance ▪ Lower costs for redundancy pay ▪ Employers' contributions to the life-course savings scheme | <ul style="list-style-type: none"> ▪ Working hours reduction days, temporary pay, performance bonuses, profit distributions, year-end bonuses, and overtime ▪ Other sources | <ul style="list-style-type: none"> ▪ R&D funds and other training funds ▪ Other sources | <ul style="list-style-type: none"> ▪ Funds for life-course savings scheme and salary savings scheme ▪ Extra tax revenues due to reduction in tax relief on pension contributions ▪ Reintegration funds ▪ Other sources |

An important principle underlying the Work Budget and Work Insurance will be cost neutrality. Employers must not find themselves confronted by extra expenditure because of a rise in wage or administration costs.

2. Work Insurance: convert employment benefits system into a system of Work Insurance

The Work Insurance system will give employers a financial interest in preventing unemployment. The system will consist of three phases, with a total duration shorter than the current unemployment benefits system. The structure will depend on the employment history and employment relationship of the employee concerned. It will consist of:

- **A transfer period of a maximum of six months** during which the employer will be required to continue to pay the employee and to be responsible for reintegrating him/her. After the transfer period, there will be an eligibility test to determine whether the employer and employee have made sufficient efforts towards finding work for the employee.
- **A six-month period financed by the sector of industry concerned.** Responsibility for reintegrating the employee will be transferred to the “Sites for Work and Income” (LWIs) but the two sides of industry in the sector concerned can also agree that administration of the system will be carried out by a different body.
- **A period (length to be determined) with a “Provision for Work and Income”.** Like the second phase, this will be administered by the LWI, but with the municipality taking on financial responsibility. The level of benefit payable in the Provision for Work and Income will gradually decrease so that the Work Insurance scheme and the supplementary benefit system come to overlap. This will act as an extra incentive for jobseekers to accept work.

The whole system is aimed at preventing inactivity. The combination of an individual Work Budget and a system of Work Insurance intended to get people into work will ensure that all parties receive encouragement and have the necessary tools available. This will make major elements of the current system for regulating dismissals superfluous. It goes without saying that employees will continue to enjoy protection against wrongful dismissal. The unions and employers will reach agreement on collective dismissal, for example in the form of social plans.

3. A single organisation responsible for employee reintegration

In Route 1, we propose reaching binding agreements at regional level regarding how to help jobseekers find work. In line with this, we propose that the financial risk involved in reintegration and benefits for long-term unemployed persons, partially incapacitated persons, and young persons with a disability should be the responsibility of a single organisation. By placing the financial risk at the level of the LWI, municipalities will be given the financial responsibility for all groups that are “distant” from the labour market. This will make reintegration policy more transparent, and we can also make use of the positive experience gained with the Employment and Assistance Act. It will be perfectly possible for small municipalities to share the risks and build up expertise by implementing the provisions jointly.

4. Introduction of the system

The Committee is well aware that introducing such a system will be a complex exercise. It will need to be worked out in detail, and will require considerable public and political discussion. The Committee refers to four issues which it considers extremely important in working out the proposals:

Implementation by the SME sector. A large number of people work for enterprises that are either small or extremely small. Those enterprises too require people with a good level of employability and they need to continue to be attractive employers. Implementing our proposals will therefore also be beneficial for the SME sector. Nevertheless, doing so must not place too heavy a burden on small businesses. Introducing the Work Budget and the Work Insurance system must not lead to an increase in wage or administration costs. The Committee sees good prospects for preventing too much of a burden being placed on SMEs when implementing Route 2, but without depriving them of the advantages. We are thinking of such things as:

- Restricting the risk of the company needing to continue to pay an employee, for example by making the relevant payment a maximum percentage of the company's total wage and salary bill.
- Having the sector share the risks during the transfer period that forms part of the Work Insurance system.
- Providing compensation through other systems, for example reducing the level of continued payment when an employee is off sick.

Employability of self-employed persons with no staff. Self-employed persons without staff (“ZZP-ers”) have for many years been the fastest growing group on the labour market. In 2006, the growth in the number of ZZP-ers was no less than 8%; in some sectors, for example construction and agriculture, it is even higher. Because ZZP-ers are not employees, they need to make their own arrangements for maintaining their employability. If the Work Budget and the Work Insurance system do not benefit ZZP-ers, an increasingly sizeable part of the labour market will fall outside the scope of the proposals in Route 2, something that is clearly undesirable. The Committee therefore recommends that the Work Budget should also be available to the self-employed. The Work Budget can then be retained for the transition period from employee to self-employed status and vice versa. ZZP-ers will also have access to the Provision for Work and Income.

All employees need to be able to make effective use of the Work Budget. It is important for all employees to be able to make effective use of the Work Budget. In the new system, they will be required to make individual choices regarding working hours, training, career, when to move to a new job, and the Work Budget. The unions can play a role here in at least two ways. For one thing, they can reach agreement regarding the collective social frameworks for the Work Budget. They can also advise individual members on how best to utilise the Work Budget.

Position of people with only a low level of education. People with little education and often a low income frequently change jobs. They also start work at a younger age, and are more likely to become dependent on benefit payments. The new system, particularly the Work Budget, must be arranged in such a way as to provide security for this group of people.

6 Route 3: Sustainable labour market participation

Sustainable labour market participation and a financially healthy and benevolent society can be achieved by 1) gradually increasing the age at which people retire and draw their state pension and 2) gradually funding the state pension from general taxation, starting in 2011.

1. Gradually increasing the retirement and state pension age

In Route 1, we made recommendations intended to enable employees to continue working until they are 65. The proposals in Route 2 are intended to improve employability. Following on from the first two routes, we propose in Route 3 that, commencing no later than 2016, the age at which people can start to draw their state old-age pension should be raised by one month each year so as to bring the state pension age in line with increased life expectancy. In 2040, the state pension age will then be 67. Numerous countries have carried through similar changes in recent years. In Sweden, Norway and Denmark, the state pension age already depends on life expectancy, but countries such as Germany, the United Kingdom, and the United States have also recently raised the age at which people can start to draw their state pension. It is both possible and necessary for the Netherlands to do the same.

People will be able to work longer due to higher life expectancy and the investments that will be made in employability. We will be able to work longer in future because we are living longer. We live longer, stay healthy longer, and the organisation and technology of work mean we can continue to work longer. We will also be investing more in employees, and for a longer time. The Work Budget and the Work Insurance system will make the labour market more effective for older people: older people who are still fit and healthy will be employable longer and will change jobs more frequently. A more employable and healthy labour force can continue to work for longer. Given the necessary cultural shift as regards work, that will increasingly be seen as something perfectly natural.

There are three reasons why people need to continue working after the age of 65:

- It will make a major contribution to labour market participation. Raising the retirement and state pension age is by far the most effective way of improving participation.
- It will make for a financially healthy and benevolent society. Because people will gradually work longer, tax revenues will increase and the fact that they will start drawing the state pension later means that expenditure will decrease. This is a win-win situation.
- It will cover the contributions to the Work Budget. Raising the state pension age will give employers financial leeway to finance the contributions they make to the Work Budget in a way that has no impact on their costs. Employees will work longer to build up a pension of 70% of their last-earned salary. We will therefore not be saving for inactivity but investing in employability. There will be a shift from aftercare to “pre-care”.

Physically demanding occupations. The Committee believes that physically demanding occupations and occupations that have a negative effect on health deserve special attention when discussing an increase in the age at which people retire and receive the state old-age pension. One method might be to create a special system of benefits.

2. Funding the state old-age pension from general taxation

With effect from 2011, the state old-age pension will gradually be funded from general taxation (people born before 1946 will be exempt). This will contribute to sustainable government finances and enable us to maintain our welfare state. Gradually increasing the extent to which the old-age pension is funded from taxation will enable older people who continue to work to earn back the extra charges in the first few years through the work continuation bonus.

7 A broader agenda for the future

In this report, the Committee has explained how it sees the labour market both now and in the future and has made recommendations for achieving a structural increase in labour market participation. The Committee has also identified a broader agenda for the future, one that will contribute to a structurally higher and sustainable level of labour market participation being supported from within other policy areas. This will involve focusing the housing market and the tax system on participation, on making full use of talent in higher education and on the importance of “learning rights”. It will also involve the position of self-employed persons with no staff (“ZZP-ers”) and the system of contributions for collective pensions. Other relevant topics as regards participation are the importance of mobility and a high-quality physical infrastructure, “knowledge migrants”, and finally the relationship between the labour market and health.

8 A future that works is a matter of urgency

The Dutch labour market is set to undergo drastic change. Over the next few decades, we will have more jobs but fewer people to fill them. The Netherlands needs everybody and we must ensure that everybody participates in the work process.

If we want to keep the Dutch economy strong and competitive, to keep public services running, and continue to afford our robust social security system, then it is a matter of urgency to implement the proposals contained in this advisory report, and to do so energetically.

The Committee urges the Cabinet, employers, and employees to be fully aware of the fundamental changes required, which offer opportunities for everyone.

The Committee on Labour Market Participation