

## Summary

Pension entitlements have not been fully indexed in nominal terms in recent years in the Netherlands (in some case, they have even been reduced) due to low funding ratios at the pension funds. This has urged policymakers to make structural reforms, including a new pension law with a regulatory framework that includes conditions under which wage or price indexation of pension entitlements can occur. The inflation people experience depends on their expenditure patterns and price developments. This paper aims to identify groups of people that have experienced relatively high price inflation over the last few decades and could thus be considered most vulnerable when indexation does not take place. Our findings are based on a study of household budget survey data from 1978 to 2004, supplemented with price information from 1978 to 2012.

We found that retired couples age 65-69 have experienced about average inflation (population-averaged) over the past few decades and that inflation experience is significantly higher for single people, increases significantly with age and decreases significantly with the level of total expenditures. These differences in inflation experiences between households result from relative price increases in goods, such as rent and utilities, on which single, low-income and older people spend relatively more of their budget, and relative price decreases in goods, such as leisure activities (including vacations), on which these groups spend relatively less of their budget than the average household. The difference in inflation experience is about 0.14 percentage points between single and married retirees, 0.06 percentage points between retired couples in the age groups 65-69 and 75-79 and 0.18 percentage points between retirees with only a public pension income and high-income retirees. Although these differences are statistically significant, they could be considered too small to be of economic significance compared to an average household experiencing 2.4 percent annual inflation. Moreover, for low-income retirees, indexation of pensions is less of an issue because most of their income is public pension income, which is indexed to wages. While all retirees whose pensions have not been fully indexed in recent years will have experienced a reduction in purchasing power, our findings suggest that using the same degree of indexation (within a pension fund) does not per se induce substantial or persistent differences in purchasing power between retirees of different ages, household compositions and levels of total expenditures.