

STRATEGY REPORT ON PENSIONS

BELGIUM

2005

STRATEGY REPORT ON PENSIONS
ANSWER TO “PREPARATION OF THE 2005 NATIONAL STRATEGY REPORTS ON ADEQUATE AND SUSTAINABLE PENSIONS
GUIDANCE NOTE PREPARED BY THE COMMISSION AND ENDORSED BY THE SOCIAL PROTECTION AND ECONOMIC POLICY
COMMITTEES
COMMITTEES – JANUARY 2005”
JULY 2005

1. Preliminary remarks

In the framework of the open method of coordination in the field of pensions, the European summit of Laeken grouped the eleven endorsed common objectives according to the following three broad principles: safeguarding the capacity of pension systems to meet their social objectives, maintaining the financial sustainability of pension systems and enhancing the ability of pension systems to respond to the changing needs of society. The extent to which the present and planned policy measures with regard to the pension schemes contribute to the realisation of the eleven common objectives is the subject of the first (2002) and of this second national strategy report on pensions (2005).

Special attention is paid to the fact that strategy report would fit in with a global policy context, which is coherently treated at European level. The information incorporated in this report is in accordance with the information incorporated in the national action plan on social inclusion, the national action plan on employment and the proceedings of the Working Group on Ageing.

The realisation of the eleven common objectives in the field of pensions and the attained policy effects have to be interpreted in a broader context, such as the demographic, social-demographic and social-economic evolutions. Point 2 of this report gives an overview of this broader context in a European frame of reference.

Point 3 of this report measures the recorded policy effects on the basis of the commonly developed outcome indicators of the ECHP version 2001 and a set of contextual data, based on the administrative sources available in our country.

With regard to the financial sustainability objectives, this strategy report on pensions 2005 is based on the same information as the Annual report 2005 of the Committee for the Study of Ageing. Also for the fore-calculation, the report uses the same working hypotheses. This approach has the advantage that the information contained in the annual report of the Committee for the Study of Ageing is coherent with the information contained in this strategy report. This will have a positive influence on the national debate with regard to the pension policy. The Committee for the Study of Ageing was established in 2001, on the occasion of the establishment of the Ageing Fund, which has to safeguard the legal pensions in the long term. This Committee has the mission to examine the budgetary and social consequences of ageing every year. The annual report 2004 is the fourth report the Committee for the Study of Ageing has proposed to the Federal Government.

The examination of objectives 4 and 5 is based on the analyses of the High Council for Employment, which the Federal Government attributed an important role in the framework of the employment policy.

For all the objectives and especially for the objectives of the first and the third part of the strategy report on pensions, namely the modernisation of the pension systems (objectives 9-11), the information from the three institutions who manage and pay out the pensions was used. These institutions are: the National Pension Office, the Pension Administration and the National Institute for the Social Security of the Self-employed. These institutions make important efforts to inform the socially insured persons about the various aspects of the legal pension systems.

The second national strategy report on pensions 2005 offers to all the actors concerned an instrument that should allow gaining up-to-date insights into the extent to which the eleven objectives are attained. The national strategy report on pensions offers information to analyse the most relevant developments within the national context. Consulting and formulating advices within bodies such as the National Labour Council and the Consultative Committee for the Pension Sector contribute to legitimise the pension policy.

On 2 September 2004, the Social Affairs Commission of the Belgian Chamber of Representatives published the report "The ageing of society: the challenges with regard to employment and financing of social security and pensions". This report is the result of a preconceived activity programme in this matter drawn up by the Social Affairs Commission in the course of the first semester of 2004. As a result of this report, the Belgian Chamber of Representatives approved a number conclusions and recommendations with regard to the ageing problem in Belgium. The first conclusion of this Commission is that in the recent past, a lot of progress was made with regard to data and analysis of the ageing problem in Belgium. The already available information constitutes a solid and objectified basis for the future developments in the pension policy.

It cannot be denied that, during the past three years, the strategy report on pensions has been a stimulus to make information available by making administrative databases accessible.

Compared to the first strategy report on pensions, special efforts have been made to develop indicators with regard to the theoretical replacement ratios for type cases in the scheme for salaried workers. A scientific research programme has been set up in order to make the so-called pension register accessible. This database contains information on a.o. the paid pension amount, irrespective of the institution that paid out this pension, as well for the legal pensions as for the pensions of the second pillar for all pensioners. It allows obtaining the distribution of the paid pension amounts, the first results of which are included in this report.

2. The most important characteristics of and the challenges for the national pension system

2.1 The pension system in Belgium

Social security in Belgium is based on an employment-related solidarity, in which the legal pension is considered as the fundamental guarantee for an adequate income as from the pensionable age.

The Belgian legal pension systems comprise three schemes: the scheme for salaried workers in the private sector, the scheme for self-employed persons and the scheme for civil servants. The legal pension schemes are based on current income financing: the employed persons of today pay for the pensioners of today. The employed persons of today, who will reach the pensionable age tomorrow, count on it that their pension will be paid by the employed persons of tomorrow.

The scheme to which a person belongs depends on his or her employment status. Pensioners who have only paid contributions to one of these three schemes receive a pension of the type "homogeneous career". Pensioners who have paid contributions to more than one of these three schemes receive a pension of the type "mixed career".

The legal pensionable age is 65 years. For the women who come under the scheme for salaried workers and under the scheme for self-employed persons, we are still in a transitional phase, during which the pensionable age is still 63 years in 2005 and will be raised to 65 years as from 2009. The retirement pension is determined on the basis of three elements: the career, the salaries and the family situation. Men reach a full career after 45 years, women after 43 years at this moment and as from 2009 also after 45 years. A career year is each elapsed year, starting from the beginning of the professional career up to and including the commencement of the pension. For salaried workers and self-employed persons, the amount of the retirement pension is in principle calculated on the basis of the annual wage of each career year.

When no professional income has been earned for one or more career years, replacement incomes, such as sickness and invalidity benefits, unemployment benefits and benefits resulting from professional diseases and accidents at work, can be assimilated to a professional income. For the periods during which such replacement incomes are awarded, the pension rights are calculated as if the last earned professional income was still being earned. These periods are called "assimilated periods".

Depending on the family situation, the pensioner has the right to 75% or 60% of the pension amount. For civil servants, the pension rights are calculated on the basis of the incomes of the last five years and the family situation has no influence on the pension amount.

In the legal pension schemes for salaried workers and self-employed persons, an income guarantee is provided in the form of a minimum pension. A minimum pension is guaranteed (in function of the length of the career however) when the person worked full-time during at least 2/3 of a career. Within the scheme for salaried workers and self-employed persons, the award of a minimum pension has been relaxed since the first national strategy report on pensions. For persons with a mixed career, a new scheme for minimum pensions has been developed. A minimum pension is awarded, even when the condition of 2/3 of a career as a

salaried worker has not been fulfilled, but pension rights have also been built up in the scheme for self-employed persons. In this case, the scheme for self-employed persons takes the years as a salaried worker into account in order to reach 2/3 of a career. However, the sum of the two pensions cannot pass a certain limit. In the scheme for salaried workers, a "minimum right per career year" is awarded for a career of at least 15 years of employment, which implies that for each year with an employment equivalent to 1/3 of a full-time employment, the calculation of the pension for that year is at least based on the minimum guaranteed monthly wage.

For the civil servants with at least 20 years of service, a guaranteed minimum pension amount for retirement pensioners is provided. This amount varies according to the civil state of the pensioner.

In order to limit the decline in the standard of living when retiring, a new scheme with regard to *supplementary pensions* on the basis of capitalisation was introduced in the course of 2003. In this scheme, the sectoral pensions play a crucial role in the democratisation of the pensions of the second pillar.

For persons of at least 65 years old, the social assistance system provides a guaranteed income for elder persons. For the older people who have not been able to build up (sufficient) rights in the legal pension systems the entire guaranteed income for elder persons or part of it can be awarded, only after examination of the resources and taking the household situation into account. During a transitional phase, this supplementary income, for men as well as for women, can be awarded as from the age of 63 during the period 2003-2005 and as from the age of 64 during the period 2006-2008.

2.2 The present challenges and the context of the national pension system

Demography

Like in numerous other Member States of the European Union, the age structure of our country is characterised by the increase of the proportion of the older people in the total population: the demographic ageing. This demographic transition can either be a result of a decrease of the fertility rate and the decrease of the number of young persons resulting from it, or of the longer length of life with the older people being kept in the population: ageing. Ageing can be the result of a combination of both these demographic evolutions.

In 2003, with a 17.4% proportion of the age category 0-14 years in the total population, Belgium is situated around the European average with regard to the decrease of the number of young persons. However, in 2003, the intensity of ageing in Belgium is higher than the European average. The proportion of the age category 65-74 years with respect to the total population is about 9.3%. Only five Member States have a higher percentage for this age category (cf. annex 1, table 1.1.). The proportion of the age category 75+ in Belgium in 2003 was 7.7%. Only one Member State, namely Sweden has a higher percentage for this age category. The same conclusion can be drawn for the demographic coefficient concerning the dependence of the older people, which is withheld as an indicator for measuring the charges the active population has to bear to finance the social security for the older people. This

coefficient is obtained on the basis of the number of older people aged 65 and older compared to the number of persons of the age category 15-64 years and amounts to 26.0 in Belgium in 2003 (cf. annex 1, table 1.3.). Only Sweden shows a higher figure.

In 2002, life expectancy at 65 years of age for men is 15.8 years in Belgium. This is close to the European average of 16.0 years. For women, life expectancy at 65 years of age is about 19.7 years, which is also very close to the European average of 19.6 years (cf. annex 1; table 1.2.). During the last two decades, life expectancy at 65 years of age has increased with about 1/5 in our country. From an actuarial perspective, the total pension burden of a pensioner has also increased with 1/5, supposing that all other factors that may have an impact have remained unchanged. On the basis of the observation that all demographic projections reckon with a further increase of life expectancy, we are confronted with the challenge that the total pension burden of a pensioner will thus further increase.

Socio-demography

Whether a pension is adequate or not, is also determined by the composition of the pensioner's household. In 2001, about 12% of the Belgian population aged 65+ lived with another person aged 65+ (cf. annex 1; table 2.2.). In a comparative European perspective, our country scores the highest percentage. Only 5% of Belgian population aged 65+ live alone, which corresponds to the European average.

Taking into account that the partners play an important role with regard to care, the future development of the composition of the household is an important element with regard to the adequacy of the pensions.

The problem of the financial viability

In a comparative European perspective, pension expenditure in our country has evolved "moderately" since the 1980s. Although Belgium had the second highest demographic coefficient for the dependence of older people, it is found that, according to the European methodology, the global Belgian pension expenditure amounted to about 12.1% of GDP in 1995, against 12.8% of GDP for the 15 EU Member States. In 2002, the global Belgian pension expenditure amounted to 11.2% of GDP, against an EU average of 12.6% (cf. annex 1; table 3.1.).

A drastic reduction of the Belgian public debt to 60 % of GDP will by 2030 result in a decrease of the interest charges that will be larger than the increase of the public pension expenditure. A decrease of the interest charges can thus be replaced by an increase of the pension expenditure, without an increase of the collective tax burden. This insight has led to the budgetary strategy the Belgian governments have been pursuing since the early 1990s. Reducing the public debt as quickly as possible is the best way to safeguard the legal pensions and to guard against the consequences of ageing.

The elimination of the Belgian job deficit

A strictly budgetary strategy has its limits however. An appropriate strategy has to be developed, centred on the structural increase of the rate of economic activity in our society (as prescribed by the European Union).

Compared to the European Union, the Belgian labour market shows an important job deficit: out of 100 working age persons, only 60 are employed. This is 4 below the EU average. The job deficit in Belgium mainly concerns the age categories from 55 to 64 years. In this age

category, only 1 out of 4 persons are employed, while in the EU, on average 4 out of 10 persons are employed. Also the average career length is shorter in our country: 37 years against an EU average of 41 years and even 43 years in the Scandinavian countries.

A higher activity rate should make it easier to finance a.o. more decent pensions in the first and the second pillar.

The maintenance of the standard of living of the retired households

The fact that, in a comparative European perspective, the global pension expenditure scores below the demographic dependence, and the finding that, for the period 1995-2002, the pension expenditure in Belgium has decreased relatively, can be attributed to a.o. the application of ceilings for the calculation of the pensions and an incomplete adaptation of the pensions to the level of prosperity. The 1997 pension reform and the division of the family pensions have also had a moderating effect on the increase of the pension expenditure.

During the period 1982-1998, the ceiling for the calculation of the pensions has only been adapted to the price evolution. It is important to note that the legal pensions in Belgium are automatically adapted to the price evolution, but not to the wage evolution: the purchasing power is thus preserved, but there is no permanent linking of the pensions to the level of prosperity. Taking into account the constant prolongation of the life of the pensioners, the lack of a linking to the level of prosperity has a downward effect on the pension amounts. For salaried workers and self-employed persons, the development of a democratic second pension pillar will become increasingly more important to guarantee adequate pensions.

The ownership of an own home is an important element determining the prosperity of the household of the pensioner. Policy measures encouraging the purchase of an own home are necessary. Among the 25 European countries home ownership varies a lot. In Ireland, 93% of the age category 65+ was home owner in 2001, while this was only 38% in the Netherlands (cf. annex 1; table 2.1.). With an ownership degree of 78%, Belgium figures in the first half of the European countries.

3. Attain common objectives

3.1 Adequacy of pensions

3.1.1. Policy objectives

In the field "Adequacy of pensions", the following three common objectives have been set:

Objective 1: Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life.

Objective 2: Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement.

Objective 3: Promote solidarity within and between generations.

Objective 1: Combat the poverty risk of older people

Social protection in Belgium strives to provide maximum social inclusion for the entire population, of which the pensioners constitute an important part. The income is one of the dimensions of social inclusion. Pension benefits are one of the sources of income of the pensioner, which are further completed with the offer and the financing of specific services for older people and pensioners. In this framework, the older people and pensioners in Belgium can benefit from the supplementary benefits organised by the government, from the reimbursement of health care and from a varied offer of health care services. Other policy measures concern a.o. the financial accessibility of the mobility and communication services.

The guarantee of **minimum rights in the legal pension schemes** aims to protect as many pensioners as possible from the poverty risk. The award of these minimum rights is not influenced by possible other sources of income of the pensioners concerned. Persons who have not built up (sufficient) rights in the legal pension schemes, can fall back on the **guaranteed income for elder persons**, which, however, does take possible other sources of means of living into account.

Objective 2: Guarantee an acceptable standard of living

In Belgium, the legal pension schemes award income-linked benefits. The pensions represent about three quarters of the global income of the pensioners (annex 1; table 4.7a). The pension benefits and the fact of disposing of complementary resources largely determine the **standard of living at the moment of retirement**. The standard of living after retirement is safeguarded by the automatic adaptation of the pension benefits to the purchasing power on the one hand and by the revaluation of the pensions in function of the general evolution of the prosperity level on the other hand.

Objective 3: Solidarity in and between generations

The Belgian legal pension scheme is a current income financed scheme and is thus an instrument to realise the solidarity between the working-age generations and the older generations. By means of the supplementary pension provisions, the pensioners should obtain a global available income that should allow them to fully participate in social life. The second pension pillar contributes to attain this objective. The government supports the development of the supplementary pensions which include elements of solidarity.

The scheme of minimum and maximum pensions in the legal pension schemes sees to it that the income distribution of the pension benefits is more limited than in case of application of the pure insurance principle, according to which the amount of the benefit is directly related to the contributions.

3.1.2. Description of the pursued policy

I. Objective 1: Combat the poverty risk of older people

A. Lines of policy

- **Minimum benefits: extension of the scope.**
 - o **Minimum schemes.**
 - o **Scheme for minimum rights for "mixed careers".**
 - o **Guaranteed income for elder persons.**
- **Amount and evolution of the minimum benefits: increase the amounts more rapidly than the evolution of the purchasing power.**
- **Specific financial interventions for care and sickness expenses and for services a.o. for older people.**

A.1. Minimum schemes

Minimum pensions within de framework of the legal pension schemes

A person who as worked full-time during at least 2/3 of a complete career (30 years of employment in one scheme) can benefit from a guaranteed income in the pension schemes for salaried workers and self-employed persons: a minimum pension. The awarded minimum pension is proportional to the number of completed career years compared with a full career. For civil servants with at least 20 years of service, a guaranteed minimum retirement pension amount is provided. This amount varies in function of the civil status of the pensioners.

The minimum pensions in the three legal pension schemes can be combined with possible other sources of income.

As from 2003, the minimum pension scheme for persons with a mixed career has been extended. The notion "mixed career" has been introduced in the pension scheme for salaried workers as from 1 April 2003. A "mixed career" is composed of simultaneous or successive salaried and self-employed activities. In the case of a mixed career, under certain conditions, a minimum pension amount is guaranteed for the periods of employment as a salaried worker. However, the sum of the two pensions may not exceed a certain ceiling. The minimum amounts are equal to the minimum amounts for self-employed persons (cf. annex 2).

For the self-employed persons, a legal increase of the minimum pensions has been provided in the form of four successive increases on 1 September 2004, 1 December 2005, 2006 and 2007.

Assistance scheme: the guaranteed income for elder persons

The guaranteed income for elder persons is an individual right: cohabitants (married or not) can both apply for the guaranteed income for elder persons and after examination of their combined means of living, they can separately be awarded the entire basic amount or part of it. A single person can be entitled to the "increased" basic amount, which is 50% higher in order to compensate for the higher fixed costs.

A.2. Amount and evolution of the minimum benefits

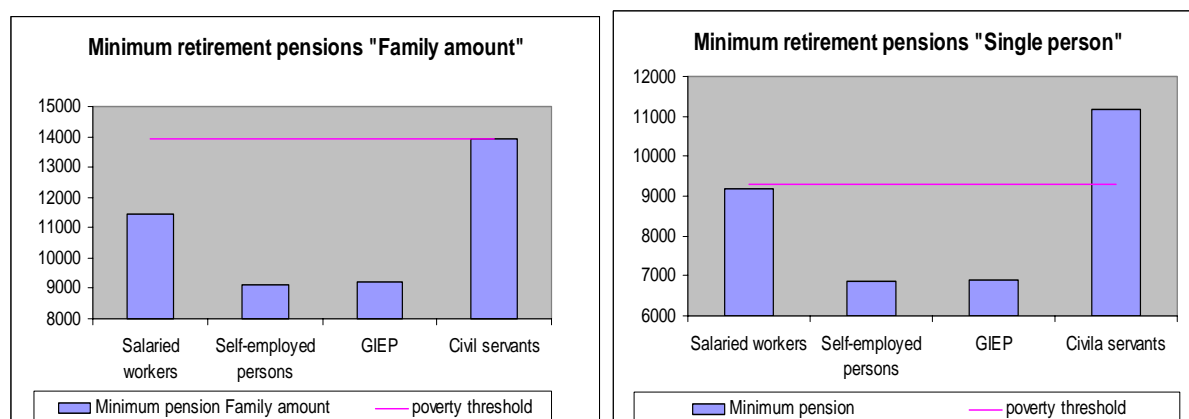
The minimum benefits versus the poverty threshold

Chart 1 below compares the benefits received in 2001 (calculation for persons with a full career) with the poverty threshold deduced from the ECHP-version 2001. The *minimum retirement pension for single persons* in the scheme for self-employed persons and the benefits in the framework of the guaranteed income for elder persons appear to be far below the **poverty threshold** (*threshold 60% of equivalised median income*). The minimum retirement pension for salaried workers with a full career is at about the same level as the poverty threshold, while the minimum pension for civil servants is above this threshold.

The *minimum pension "family amount"* (pension amount for a pensioner who has to support a partner) only attains the poverty threshold for a family in the scheme for civil servants.

Because of the decision to increase the minimum pensions in the scheme for self-employed persons and in the framework of social assistance more rapidly than in the other schemes since 2001, as shown in table 1, it can be expected that for these schemes, the difference between the minimum pensions and the poverty threshold will become smaller.

Chart 1: Minimum retirement pension for a full career, guaranteed income for elder persons (GIEP) in 2001 versus the poverty threshold, ECHP-version 2001¹



Source: Eurostat; ECHP version 2001 + own calculations.

A cause of the less adequate minimum retirement pensions is the fact that they have not been increased, except for the adaptations to the purchasing power in the 1990s, because of the compelling necessity to reduce the public debt, in order to create the margin necessary for the financing of the future pensions.

The comparison in chart 1 refers to purely monetary data. E.g., when the pensioners own their home, the amount of the imputed rent is not taken into account.

Evolution of the minimum pensions and the guaranteed income for elder persons (GIEP)

The purchasing power of the pensions and the GIEP is guaranteed by the automatic adaptation to the health index. However, the benefit is not automatically adapted to the prosperity level. Adaptations on top of the inflation are the object of ad hoc policy decisions.

Since the first strategy report on pensions, period 2002-2005, according to the information shown in table 1, the evolution of the minimum pensions and the evolution of the guaranteed income for elder persons have followed the prosperity increase. In table 1, the net national income (NNI) serves as the criterion for prosperity. For the scheme for self-employed persons, a catching up can even be observed, with an increase that is 4% more rapid than the increase of the net national income (NNI). On the other hand, for the civil servants, the minimum pensions have increased less rapidly than prosperity.

(-) The GIEP was introduced on 1 June 2001. Here the situation "single person" refers to a single person living alone (receiving the basic GIEP amount x 150%), and "family amount" refers to the situation in which two persons receiving the GIEP live together (2 x the basic amount).

(-) The equivalised income is the total income (private income, income from labour and income from capital + pensions and all transfers) divided by the number of equivalent persons. This number is calculated on the basis of the changed OECD equivalence scale, which attributes a weight of 1.0 to the first adult, a weight of 0.5 to each extra adult (persons aged 14 and older) and a weight of 0.3 to each child. The equivalised income this measures the standard of living.

(-) When the results of these indicators are compared at international level, it should be noted that the poverty threshold and the corresponding poverty risk rate are relative criteria. On the basis of the data of the ECHP-version 2001, Belgian scores a bit below the European average for the indicator poverty risk rate, which is a relative criterion.

Table 1: The evolution of the minimum pensions and the GIEP, period 2002-2005

Scheme	Evolution 1.1.2002 - 1.1.2005. (1.1.2002 = 100)		
	Nominal	Real (*)	Relative prosperity increase (**)
Salaried workers:			
- family amount	110.15	104.03	100.81
- single person	110.15	104.03	100.81
Self-employed persons:			
- family amount	113.61	107.49	104.17
- single person	114.02	107.90	104.56
Civil servants:			
- family amount	108.23	102.11	98.95
- single person	108.23	102.11	98.95
GIEP:			
- family amount	114.13	108.01	104.67
- single person	114.13	108.01	104.67

(*) For the period 1/1/2002 - 1/1/2005, the inflation compensation amounted to 6,12% (central index 1/1/2002 107.30; 1/1/2005 113.87).

(**) The relative prosperity increase is measured as the difference between the real increase and the increase of the real net national income (3.19% over the period).

On 1 April 2003, the GIEP reference amount was increased with 3.4% and on 1 September 2004, it was again increased with 120 EUR on an annual basis (which corresponds to an increase with about 2.5%). These adaptations to the prosperity level will be repeated in the future (cf. point 3.1.4.).

The **increase of the minimum pensions and the GIEP**, as applied during the past period, produces the two following effects: on the one hand, the pensioners concerned actually receive a higher pension that follows the evolution of prosperity and on the other hand, a larger group of older people are eligible for these benefits. The combination of both effects has probable a positive influence on the poverty risk rate among the older people.

A.3. Complementary benefits and services

Besides the replacement incomes, there are specific services and benefits, which are important for older people with particular care and assistance needs. These benefits are part of a cost compensation scheme. The benefits and services can be linked to the "status" of the socially insured person. They can also be linked to his or her situation or age. In general, the benefits are dependent on the income.

The enumeration of benefits below is not comprehensive.

(1) In function of the status of the socially insured person

The increased benefits for health care are linked to the status and to the income of the socially insured person.

(2) In function of the "situation"

This concerns social measures which are intended for the whole population in a number of cases and which the older people or the pensioners can also benefit from (and for which they are particularly eligible as a vulnerable group).

a) Complementary benefits:

- Benefit for assistance to elder people.

b) Reimbursement of health care:

- Besides the increased benefits, there is the system of maximum billing for health care.

c) Reimbursement of costs for care:

- Care insurance (Flanders).

d) Care services offer:

There is a large offer of services: home care, access to social housing, service flats, day care centres, centres for short stays, facilities for sheltered accommodation (in the framework of psychiatric care), rest homes, residential care homes and psychiatric care homes.

At this moment, the rest homes and the residential care homes accommodate about 5% of the population aged 60+. About 90% of these residents are older than 75 (cf. annex 1; table 6.3). It is remarkable that the group of women represents more than 80% of this group.

Besides, there are a number of other specific measures promoting the social integration of older people, such as initiatives with regard to accessible housing and social telephone rates.

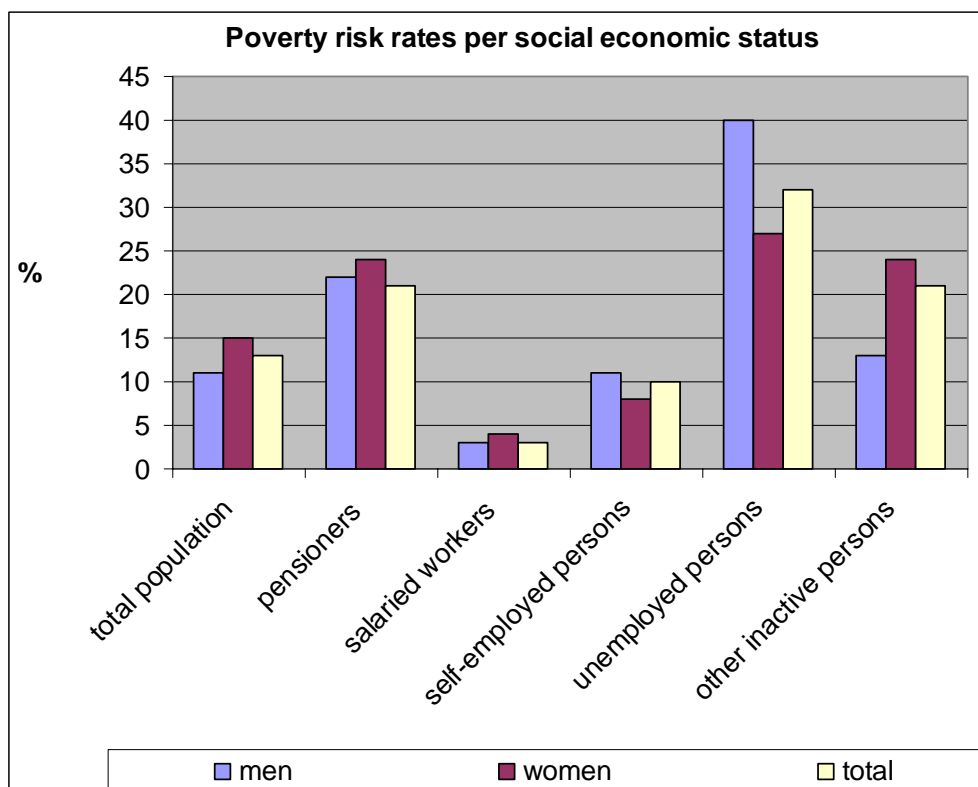
(3) Age-related benefits

In Belgium all persons aged 65+ entitled to reductions in the price for public transports.

B. Indicators and contextual data

Chart 2 shows that in Belgium in 2001, the poverty risk rate for the pensioners, with a poverty threshold of 60 % of the equivalised median income, was significantly higher than that for the salaried workers and the self-employed persons, namely 21% for the pensioners against 3% for the salaried workers and 10% for the self-employed persons. The other group of inactive persons clearly has a higher poverty risk rate than the active persons. The group of unemployed persons clearly belongs to the group with the highest poverty risk.

Chart 2: Poverty risk rates ECHP-version 2001



Source: Eurostat ECHP – golf 2001

*Total population 16+

II. Objective 2: Guarantee an acceptable standard of living

A. Lines of policy

Guarantee an acceptable standard of living for the pensioners.

- At the moment of retirement.

Legal pensions:

Salaried workers:

* restoration of the adaptation to the level of prosperity for the wage ceilings used to calculate the pensions.

* award of the "minimum right per career year" when the pension is calculated

Self-employed persons:

* introduction of the "maxi status"

Civil servants: * introduction of the age bonus when the retirement is postponed until after the age of 60.

Complementary pensions:

* Democratisation of the access to complementary pension rights (2nd pillar)

- After retirement

Salaried workers:

*Reinforcement of the adaptation to the level of prosperity of the older pensions.

The examination of objective 2 is split into the moment of retirement and the situation after retirement.

A.1. Maintenance of the standard of living at the moment of retirement

(1) The legal pensions

In Belgium, the first pillar is considered as the fundamental guarantee for access to a decent pension for all.

Salaried workers

For the calculation of the awarded pension amount, a "wage ceiling" is taken into account. Earnings beyond this wage ceiling are not taken into account for the calculation of the pension amount. For a long period, the wage ceiling was fixed at the same nominal amount. Since the 1997 pension reform, the wage ceiling is adapted every two years (first adaptation in 1999) in function of the decision that is taken with regard to the maximum margin for the development of the labour costs (wage norm).

If the career comprises at least 15 years of employment, the legal pension scheme for salaried workers provides in a "*minimum right per career year*" since July 1997. For each career year during which at least an activity equivalent to 1/3 of a full-time employment has been exercised during that year, the pension will be calculated at least on the basis of the guaranteed minimum monthly wage of a 21 year old applicable at the moment of retirement, instead of on the basis of the real wages. The right is awarded proportionally according to the proved number of days of activity for the year concerned.

This minimum right per career year is particularly favourable for the retirement pension of the atypical careers of unskilled workers. The minimum right per career year is only applied when the total present pension amounts to less than 996.64 EUR (single person) or 1,245.80 EUR (family amount) per month. This limit is not linked to the wage evolution, but it is linked to the evolution of the health index.

Self-employed persons

Since 1984, the pensions of the self-employed persons are calculated on the basis of the real (but ceiled) wages instead of on a fixed basis, like it was done previously. In more cases, the new pensions will increase progressively. However, for low wages, this regulation may result in a lower pension in the future.

Since 1 July 2005, the helping spouses of self-employed persons are obliged to affiliate with the social status of the self-employed persons: the so-called "maxi status". This regulation provides a.o. that they build up proper pension rights. Until then, the affiliation for all social risks within the scheme for self-employed persons was voluntary (except for the obligatory affiliation with the mini status). At this moment, about 15% of them are insured in the maxi status.

Civil servants

In principle, the reference wage for the calculation of the retirement pension is the average wage of the last five years of the career, which has a favourable influence on the calculation of the pension, compared to the two other legal pension schemes. A prolongation of the length of the active career with diploma bonuses makes it possible to attain a full pension. The introduction of age bonuses for those retiring after the age of 60, of which the main purpose is

to incite the civil servants to work longer, has a favourable influence on the pension amount, as far as the entire pension is not yet attained.

(2) Encourage complementary pensions

The government provides a number of fiscal and parafiscal incentives which have to make it possible to acquire and build up pension rights in the second and third pillar. The pensions of the second and third pillar should allow the salaried workers and the self-employed persons to better preserve their standard of living upon retirement.

Salaried workers

The law of 28 April 2003 concerning the complementary pensions aims to extend the second pension pillar via:

- Sectoral pensions: the pension schemes can be introduced via collective labour agreements at sector level. They should be managed jointly (if necessary via specific consultation bodies). Sectoral schemes can e.g. also be implemented in small and medium sized enterprises and they make second pillar pensions also accessible for workers, while these were often reserved for employees and executives in the past.
- "Social pension schemes": if the pension schemes are implemented for the entire staff, and if the benefits satisfy certain solidarity conditions, the paid contributions are exempt from the existing insurance taxes.
- Minimum return on the paid contributions: a guaranteed minimum return is provided on the contributions paid by the employees and the employers. The objective is to protect the employees from the volatility of the financial markets on which the paid contributions are invested.

Self-employed persons

Also for the self-employed persons the existing regulation concerning the complementary pensions, which was rather unsuccessful, was adapted as from 1 January 2004: self-employed persons can now also affiliate with a social pension fund and an increased deductibility is granted when 10% of the paid contributions go to a solidarity fund that has to finance pension rights for assimilated periods. Besides, the possibility was created to conclude such complementary pension insurances with other insurance institutions than the social insurance bodies for self-employed persons.

(3) The third pension pillar

The third pension pillar comprises the individual pension schemes and the individual life insurance.

In the individual pension schemes, everyone can pay a fixed maximum amount in a pension savings account (max. 620 EUR in 2005) each year. For these payments, a tax reduction is granted on the income tax.

The government also encourages building up private insurances (life insurances) via tax deductible contributions. Besides, a particular contribution is also used to encourage home ownership, which simultaneously increases the financial strength of especially older people.

The standard of living of the pensioner will to a large extent be determined by the global income from the three pension pillars and, in such cases, by the ownership of a home.

A.2. Maintenance of the standard of living after retirement

In Belgium, the pensions are automatically adapted to the health index, but they are not automatically adapted to the evolution of prosperity. That is why the government can decide to *revalue* the pensions by increasing them by a percentage or a fixed amount (cf. also table 1).

The federal government has decided to continue the programme to accord **selective adaptations to prosperity** in the scheme for salaried workers **during the period 2005-2007**:

- on 1/9/2005: 2% for all pensions that started in 1997;
- on 1/9/2006: 2% for all pensions that started in 1998 and 1999;
- on 1/9/2007: 2% for all pensions that started in 200 and 2001.

As from 2007, every two years, the benefits (including the minima) for the salaried workers and the self-employed persons will be adapted to the level of prosperity. The extent of these adaptations will be determined upon advice of the social partners.

The pension amount of the civil servants is adapted to prosperity according to the principle of "postponed salary". The automatic perequation means that an increase of the wage of the active civil servants implies a proportional increase of the pension of the retired civil servants. According to the Committee for the Study of Ageing (annual report 2005), it appears that the increase of the average pension is about 0.5% under the wage increase. The Committee attributes this a.o. to a spontaneous wage increase as a result of a shift to more qualified staff and to the trend that more and more wage increases take such form that the perequation (partly or entirely) is avoided (bonuses, introduction of new wage scales, ...).

B. Indicators and contextual data

B.1. Standard of living at retirement

(1) Theoretic replacements rates

The adequacy of the pension benefits at the change from economic activity to retirement can be expressed by a theoretic replacement rate. This indicator gives the ratio between the pension and the last earned professional income. The higher the value of the replacement rate, the smaller the difference between the pension and the last earned professional income.

Within the Indicator Subgroup of the Social Protection Committee of the EU, a set of type cases has been determined, which all regard a single man who exclusively built up a pension in the scheme for salaried workers, completed with a second pillar pension. The adopted basic type case is a man with a career of 40 years in the scheme for salaried workers and whose yearly wage corresponds to the arithmetic average wage, as deduced from the national accounts. For the calculation of the theoretic replacement rate for the year 2004, the wage of the year 2003 is taken into account. For the basic case type (100% average wage), this yearly wage amounts to 30.855 EUR (average income, source: national accounts).

The working hypotheses for the average yearly wage increase, the yearly pension increase on top of inflation and the yearly increases of the wage ceiling for the calculation of the pension for the period 2004-2050 are mentioned in annex 4 – table 3.

For the building up of the second pillar, it is assumed that the first contribution was paid in 1992 and that the yearly contribution is equal to 4.25% of the wage. Only for the type case of 66% of the average wage, a yearly contribution of 1% is taken into account. It is assumed that the reserves produce a real net return of 2% on a yearly basis. An comprehensive representation of the working hypotheses and the results can be found in annex 4.

Table 2 contains the results of this common exercise for the most important different type cases. The value of the theoretic replacement rates is co-determined by the characteristics of the legal pension system, such as the regulation for the minimum pension, the wage ceiling for the calculation of the pension amount...

Table 2: Theoretic replacement rates for a single salaried worker with a career of 40 years

	Basic type: 100% average wage				2/3 average wage		Increase of 80 to 120% of the average wage		Increase of 100 to 200% of the average wage	
	2004	2010	2030	2050	2004	2050	2004	2050	2004	2050
Gross replacement rate 1st pillar	39.23	40.6	38.16	36.99	43.24	42.24	33.46	31.49	26.96	22.49
Gross replacement rate 2nd pillar	3.64	5.4	10.19	9.59	0.86	2.26	3.46	7.97	3.37	7.15
Total gross replacement rate 1st and 2nd pillar	42.87	46	48.35	46.58	44.09	44.5	36.92	39.45	30.33	29.65
Total net replacement rate	67.29	71.92	76.41	73.75	65.28	65.57	59.86	65.14	49.88	51.97
Net replacement rate if only 1st pillar	62.81	64.86	63.54	61.47	64.09	62.44	55.31	54.26	43.86	39.63

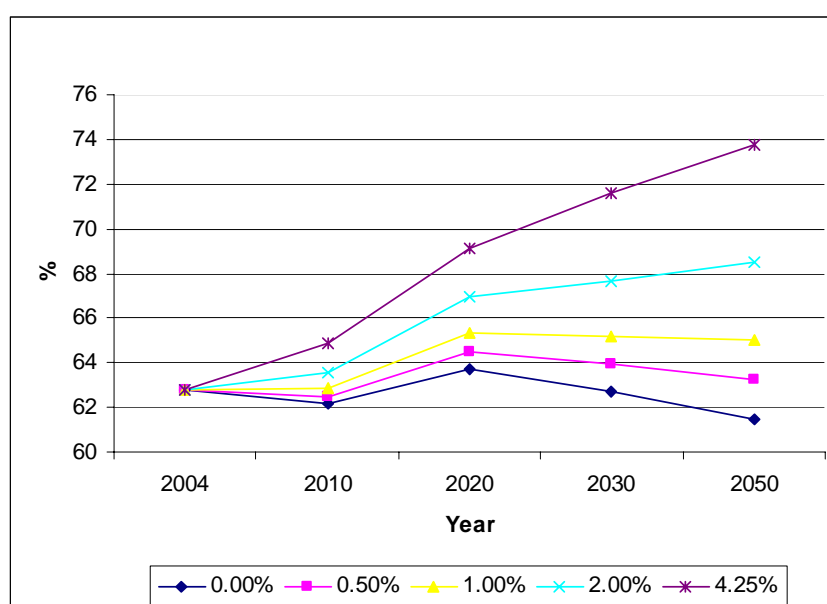
Source: Federal Public Service Social Security.

Some conclusions:

- The net replacement rates are significantly higher than the gross replacement rates because of the specific regulation for pension incomes in the Belgian tax scheme.
- The net replacement rate of the 1st pillar in 2004 amounts to about 63% for the basic type case.
- For the pensioners whose career is characterised by a lower income level (2/3 of the average wage), the net replacement rate for the 1st pillar in 2004 is a bit higher, because of the existing minimum rights (minimum per career year and minimum pension), the pension being calculated on the average wage and the replacement rate on the last wage.
- For pensioners with an increasing wage profile, the net replacement rate for the 1st pillar in 2004 is less high: respectively 55% (wage from 80% to 120%) and 44% (wage from 100% to 200%). These lower values are principally the result of the wage ceilings for the calculation of the pensions.
- For the higher wage profiles, the increase of the effect the second pillar pension on the value of the replacement rates is also striking, as the building up of the second pillar pension comes to maturity after contributions have been paid for 40 years. When maturity is reached, the part of the 2nd pillar pension in the replacement rate decreases under the influence of the increasing life expectancy. The saved capital has to be spread over a longer period.

The part of the 2nd pillar pension in the total net replacement rate (1st and 2nd pillar pension) strongly depends on the contribution rate of the second pension pillar and the extent to which the maturity of its building up is reached after contributions have been paid for 40 years. This is illustrated in chart 3 for the basic case type, 100% of the average wage, in which the total net replacement rates (1st and 2nd pillar pension) of a 2nd pillar pension, for which contributions have been paid first time in the course of 2004, are included.

Chart 3: Total net replacement rates at retirement for different contribution rates for the 2nd pillar pension



Conclusions:

For the period 2004-2005, the total net replacement rate (1st and 2nd pillar) with a low contribution rate for the 2nd pillar (0.50%) remains almost constant or decreases slightly at the moment of retirement. As from a contribution rate of 1%, as the building up of the 2nd pillar comes to maturity (after 40 years of payment of contributions), the total net replacement rate is significantly higher.

It should be noted that in practice, the transition from activity to retirement is often more gradual than in the theoretic type case. Most new pensioners are no longer active during the preceding year, but are entitled to rights in another branch, such as unemployment, invalidity ... The actual average age on which the active career is ended is well below the legal pensionable age. Severable studies show that the actual average age on which the active career is ended is 57 years, while the influx in the pension scheme for salaried workers happens at the average age (for men) of 64.02 years, after a career (including assimilated periods) of 42 years. The persons concerned are thus often already faced with a decrease of their income before they retire.

(2) Pension distribution data on the basis of the pension register 2001

Data from the pension register (cf. annex 5, tables 5.1. and 5.2.) show that the rate of participation in the 2nd pillar pension is unequally distributed according to the professional status. In 2001, the participation rates of the new pensioners were the following:

- with a homogenous career of salaried worker: 28,5%;
- with a homogenous career of self-employed person: 8,7%;
- with a homogenous career of civil servant: 4,6%;
- with a mixed career: 22,4 %.

For the following analysis of the distribution data with regard to the group of pensioners who combine a pension of the 1st and the 2nd pillar, we will restrict ourselves to the subgroup of the pensioners with a homogenous career of salaried worker.

With regard to the influx in the legal pension schemes in the year 2001 (**situation before the coming into force of the new law on complementary pensions**), charts 4 and 5 allow to determine the participation degree of the second pillar pensions for the different income quintiles. The group of pensioners that belong to the category of the 20% lowest incomes (= 1st quintile) participates the least in the 2nd pillar, and this in identical way with men and women.

In charts 4 and 5, the benefits from the second pillar pension are actuarially converted in pensions. To the subgroup of new pensioners with a homogenous career of "salaried worker" in 2001 combined with a second pillar pension, only in 11% of the cases the complementary pension was paid out as a pension.

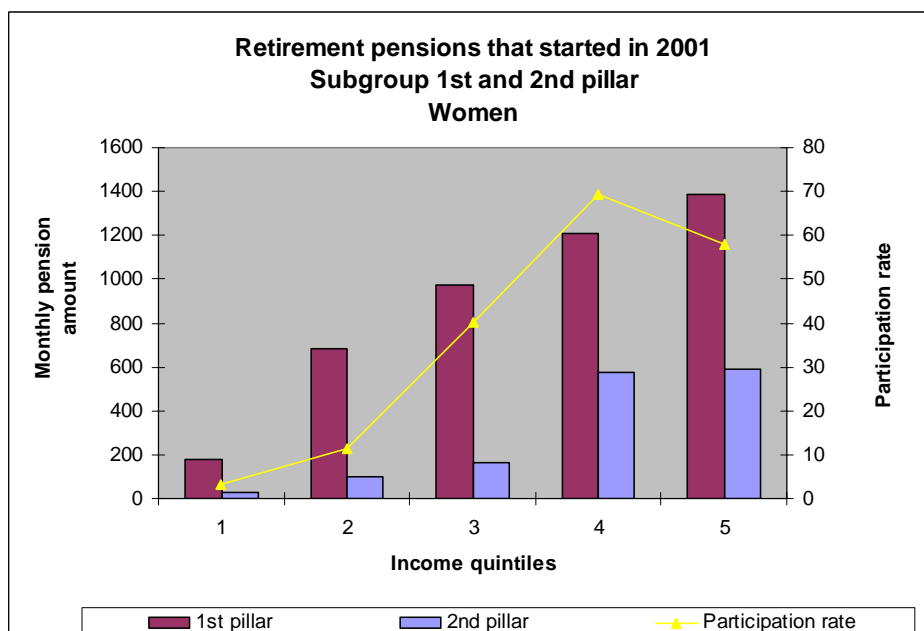
For the subgroup of pensioner combining a first pillar pension and a second pillar pension, the pension amounts paid out to men are on average higher than those paid out to women, but the incomes from the second pillar pension constitute similar proportions from the pension income for both sexes.

Annex 5, table 5.3. shows that the composition of the quintiles strongly varies: the lowest quintile mainly consists of women (89%), while the highest quintile mainly consists of men (96%).

Chart 4: Participation rate second pension pillar and amount of the pension benefits of the first and second pillar pension for retired men from the income quintiles enjoying both types of pensions



Chart 5: Participation rate second pension pillar and amount of the pension benefit of the first and second pillar for retired women from the income quintiles enjoying both types of pensions



Conclusions:

These charts show that while for the lowest quintile about 13% of the global pension income consists of incomes from the second pension pillar, this is about 30% and more for the two highest quintiles. The second pillar pensions substantially contribute to the maintenance of the standard of living: they increase the gross pension income for these subgroups with about 40%.

(3) Participation in the 2nd pillar pension: Building up of rights (present situation)

Salaried workers

Late 2004, there were collective labour agreements providing complementary pension provisions in economic sectors representing about 25% of the employment in the private sector. Participation increased with the new law on complementary pensions, and when the ca. 800,000 salaried workers who were already affiliated with pension funds and group insurances are added up to this, it can be assumed that about 48% of the salaried workers in the private sector (annex 6) is eligible to enjoy some kind of complementary pension rights. In a number of sectors, such as the non-profit sector, there are already engagements to introduce complementary pension plans, which will again increase considerably the coverage rate.

Self-employed persons

According to Assuralia (Professional union of insurance companies), the first indications are positive: the number of policies would increase with about 2/3, only with the private insurers. The CBFA (the Banking, finance and insurance commission) estimates the total coverage rate at about 21%, less or more equally spread over the social insurance funds and the private insurance companies. (annex 6)

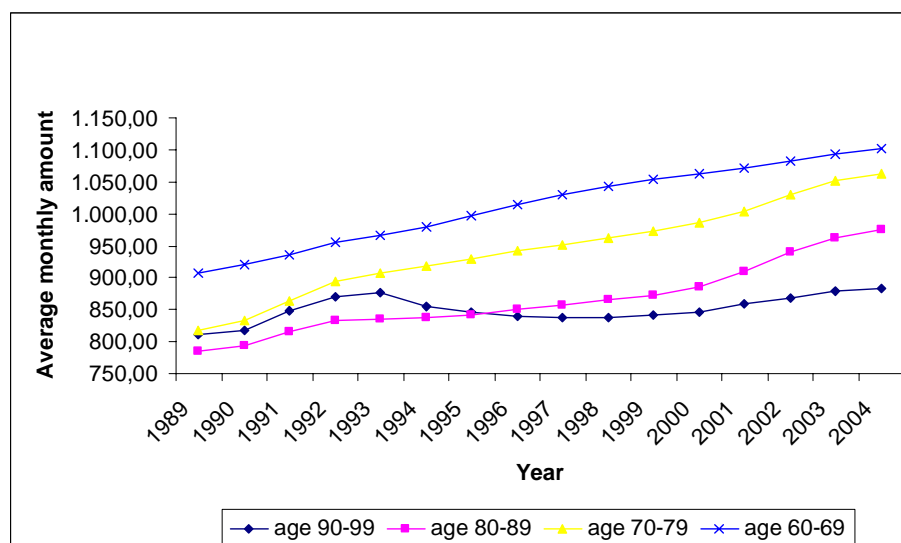
B.2. Standard of living after retirement

Adaptation to the level of prosperity of the older pensions

Chart 6 shows the evolution of the average pension for a "single" salaried worker of a married man with a full career (constant prices) according to the age category. It can be concluded that the oldest pensions do not follow the progression of the new pensions². For the period 1989-2004 however, it is found that the difference between the average amount of the first pillar pension for the old and the new pensioners has become smaller.

² For the persons whose pension started in 1967 or before 1967 (90+ in the chart), the amount of the pension indicated in the chart comprises as well the part capitalisation as the part repartition. For the persons whose pension started after 1967 (change to the repartition scheme), the indicated pension amount only comprises the part repartition. The part capitalisation acquired during the years preceding 1968 is paid as a separate pension.

Chart 6: Evolution of the average monthly amount of the retirement pension in the scheme for salaried workers for a married man with a full career, by age category



Monthly amounts in EURO.
 Source: National Pension Office

On the basis of the calculations of the theoretic replacement rates, of which the results have been included in table 2, the theoretic total net replacement rate (1st and 2nd pillar) at the moment of retirement is 67.29% in 2004 for the basic type case (single salaried worker with a career of 40 years). Taking into account the assumptions with regard to the wage evolution and the pension benefits, the ratio between the evolved pension (1st and 2nd pillar) and the evolved wage of the previous year in net values would decrease to 63.70% by 2014.

III. Objective 3: Promote solidarity between and within the generations

The objective of the Belgian legal pension scheme is to guarantee access to a decent pension for all, on the basis of a balanced combination of solidarity and insurance. The Belgian legal pension schemes are of the repartition type.

According to a study, executed by John Myles³ for the Belgian government, the costs for ageing have to be spread fairly over the actives and the pensioners on the one hand (intergenerational equity), and on the other hand, within each of these groups, the most vulnerable persons should not have to support disproportioned costs and equality of treatment for men and women should be realised (intra-generational equity).

³ J. Myles, *A new social contract for the elderly*, in "Why we need a new welfare state", Oxford University Press, Oxford, 2002, pp. 130-172

A. Lines of policy

Preserve the solidarity principle within the pension schemes:

- **Intra-generational: protect the most vulnerable pensioners and workers**
 - * **Pensions:**
 - Unlimited contribution ceilings versus wage ceilings
 - Tax decreases
 - Solidarity contribution
 - * **Other social benefits for pensioners**
 - Health insurance contribution
- **Intergenerational: repartition of the pension charges between workers and pensioners**
 - * repartition scheme
 - * Ageing fund

A.1. Intra-generational solidarity

This is translated into the following lines of policy:

**Financing mechanism of the legal pensions*

The social contributions are collected on the entire (unceiled) gross wage, while the pension calculation takes a yearly wage ceiling into account. In accordance with this mechanism, for the highest wages, the earned wage is dissociated from the pension rights that have been built up. This implies that the active persons who earn a wage higher than the wage ceiling pay proportionally more contributions than the others with a lower income and they thus support the entire group of active persons within the repartition system. Since 1999, the wage ceiling is adapted every two years (first adaptation in 1999) in function of the decision that is taken with regard to the maximum margin for the development of the labour costs (wage norm).

** Personal income tax*

A special form of solidarity is realised via the personal income tax. The pensioners enjoy a fixed maximum tax reduction⁴.

** Solidarity contribution*

With regard to the higher pensions, a withholding is applied (progressive from 0% to 2%⁵) for the financing of the lower pension. This withholding is applied as from a monthly pension amount of 1452.11 EUR for family pensions and 1161.85 EUR for pension for single persons. This withholding is applied to the incomes of the 1st and the 2nd pension pillar. When the second pension pillar is paid out as a capital, it is converted to a fictive pension.

⁴ For the taxable incomes 2004, this reduction amounted to 1637.96 EUR for single persons and to 1912.53 EUR for persons with a family to support. The application of the reduction on a due basic tax, which does not exceed these limits, does not give rise to a possible refund of the taxes as a kind of "tax credit".

⁵ For a monthly pension amount higher than 2347.85 EUR (with a family to support) or 2054.38 EUR ("amount for single persons"), a withholding of 2% is applied.

** Contribution to the financing of the sickness insurance*

The pensioners with a pension exceeding 1295.28 EUR/month (pension with a family to support) or 1092.93 EUR/month (single persons) also pay a personal contribution for the sickness insurance (3.55% of the gross pension). This contribution is withheld from the benefits from the 1st and the 2nd pension pillar.

A.2. Intergenerational solidarity

The principle of the intergenerational solidarity is that the costs of ageing have to be equitably spread over the active persons and the pensioners.

- * Income transfers from the active persons to the pensioners.

The pension schemes for salaried workers and self-employed persons are financed via the repartition system: the contributions collected on the wages of the active persons are used to pay out the present pensions, implying a current financial transfer from the active persons to the pensioners.

- * *Equitable spreading of the costs of ageing over the active persons and the pensioners.*

This concern led to the creation of the Ageing fund⁶ in 2001. This fund aims to build up a demographic reserve that should allow financing the extra costs as a result of the ageing in the period between 2010 and 2030, from the moment the debt rate is below 60% of GDP. The Ageing fund is no permanent capitalisation fund but a temporary levelling fund.

The Fund is financed with budgetary surpluses of the federal government, non-recurrent tax incomes, social security surpluses and the yield of the investment of the capital of the Fund. As from 2007, yearly budgetary surpluses have to be realised, which will be deposited into the Ageing fund.

B. Indicators

Annex 1, tables 4.9 and 4.10 show the results of the income inequality indicator S80/S20 for 2001, measured for two older age categories (65+ and 75+) compared to the complementary younger age category: respectively 0-65 and 0-75. For both age limits, the income inequality in the older age category is significantly larger than in the younger age category. Compared to the other member states of the European Union, the income inequality in the older age category in comparison with the income inequality in the younger age category, as measured on the basis of ECHP version 2001, is the largest in Belgium.

3.1.3. Challenges for the future policy

Pension depreciation

The Belgian legal pensions are automatically adapted to the purchasing power, but they are not automatically adapted to the level of prosperity. The further the starting date of the pension is away, the larger the effect of the pension erosion is. The increase of life expectancy, as expected in the demographic projections manifests itself in longer pension duration and consequently, a risk that more pensions can become inadequate.

The increasing number of female pensioners

The present pensioners receiving the family amount in the scheme for salaried workers will in the future more and more frequently be replaced by the new generation of pensioners

⁶ Law of 5 September 2001 guaranteeing a permanent decrease of the public debt and establishing an Ageing fund

receiving two pensions at the amount for single persons. For these pensioners, the sum of both pensions will exceed the "family pension" in absolute terms, despite a lower replacement rate (pension compared to the last earned wage).

Although the pension rights for women in the short term are relatively low because of the mostly short professional career, they will lead to a higher liquidation rate (average pensions awarded to the households with regard to the average wage of the active salaried workers) in the long term, because the new female pensioners will then have a longer career.

Because of the increasing number of female pensioners who have built up a retirement pension, in combination with the significantly higher life expectancy for women and the longer pension duration this implies, the intensity of the pension erosion may increase.

3.1.4. Strategies for adequate pensions in the future

Lines of policy

Adaptation of the pensions to the level of prosperity

- restoration of the wage ceilings
- adaptation of the oldest pensions to the level of prosperity
- revaluations of social assistance

Democratisation of the second pillar pensions

The Belgian pension schemes remain based on the idea that everyone should have access to a decent pension income and that this access has to remain guaranteed. The first pension pillar thus continues to represent the fundamental expression of solidarity and insurance.

Restoration of the adaptation of the level of the wage ceilings

First pension pillar

Salaried workers

- Since the 1997 pension reform, the wage ceiling used for the calculation of the pensions is adapted every two years (first adaptation in 1999) in function of the decision that is taken with regard to the maximum margin for the development of the labour costs (wage norm). This will slow down the further decrease of the replacement rate at the start of the pension.
- Besides the automatic adaptation of the pensions to the evolution of the purchasing power, selective adaptations to the level of prosperity⁷ will slow down the pension erosion relatively. This is why this policy of "**adaptations to the level of prosperity**" will be pursued, but in a purposive way: at this moment "purposive" adaptations are preferred because of their greater social efficacy.

⁷ In order to explain the functioning of the selective adaptations to the level of prosperity, the entirety of the pensions has to be considered as the sum of the successive generations of pensioners.

The pension of newly retired generation is calculated on the basis of the wages earned during the 40-45 year career preceding the date of retirement, in a proportion of 1/45 per career year; it is thus influenced by the wage increases of the last 40 to 45 years.

- The pension of the older generation is determined by an earlier career (e.g. a career from 1936 to 2001 compared to a career from 1937 to 2002). Assuming a yearly increasing wage evolution, a shift in time leads to a lower average pension compared to the younger generation. The effect of the missed wage increases of the last years can be compensated partly for the older generations by selective adaptations to the level of prosperity. The arrears of the older generation compared to the younger generation is thus reduced.

During the period 2005-2007, the following adaptations to the level of prosperity will be allowed:

- on 1/9/2005: 2% for all the pensions that started in 1997
- on 1/9/2006: 2% for all the pensions that started in 1998 or 1999;
- on 1/9/2007: 2% for all the pensions that started in 2000 or 2001.

As from 2007, **adaptations to the level of prosperity** will be carried out **every two years, upon advice of the social partners.**

Self-employed persons

As for the salaried workers, adaptations to the level of prosperity will be carried out as from 2007, upon advice of the social partners. Within the pension scheme for self-employed persons, the so-called 1st pillar *bis* pension will be introduced on **1 July 2006**. The aim of this pension is to reduce the difference between the global legal pension of the salaried workers and that of the self-employed persons. This will be implemented on the basis of a capitalisation system and will be characterised by a number of solidarity rights.

The guaranteed income for elder persons (GIEP)

On 1 April 2003, the reference amount of the GIEP was increased with 3.4% and was again increased with 120 EUR on an annual basis on 1 September 2004. This increase will be reiterated on 1 December 2005, 2006 and 2007 (which comes down to an increase of about 2.5 % each time).

Democratisation of the second pillar pension (scheme for salaried workers and self-employed persons)

In order to increase the standard of living of the pensioners to a maximum, the legal pensions will progressively be complemented via benefits that have been built up in the second pension pillar. The impact of the benefit of the second pension pillar on the total pension amount will be more important as the number of years for which contributions to the second pillar have been paid increases.

As most second pillar pensions are financed at the level of the activity branches, they can only be based on the capitalisation principle. For reasons of necessary solidarity, this complementary protection has to be extended to all active persons.

3.2 Financial sustainability of the pension schemes

3.2.1. Employment and labour market participation of older workers

Objective 4: Achieve a high level of employment through, where necessary, comprehensive labour market reforms, as provided by the European Employment Strategy and in a way consistent with the BEPG.

Objective 5: Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; that workers are not encouraged to take up early retirement and are not penalised for staying in the labour market beyond the standard retirement age; and that pension systems facilitate the option of gradual retirement.

Since the introduction of the European Employment Strategy (EES) in 1997, more than 280.000 jobs have been created in Belgium. As a result of this, the employment rate increased from 58.9% to 60.3% in 2004. However, this increase was insufficient to reach the average rate of our neighbouring countries (66.7%) or of the European Union (63.0 %). The employment policy pursued during this period contributed to a more labour intensive economic growth, especially in favour of the unskilled workers.

Table 3: Employment rate in Belgium in 2004

	Survey on the labour forces	National administrative data
Age 15 – 64		
Total	60.3	60.9
Men	67.9	66.4
Women	52.6	55.2
Belgians	61.4	-
Foreigners from inside the EU-15	56.9	-
Foreigners from outside the EU-15	36.6	-
15-24	28.1	33.2
25-54	77.3	75.7
55-64 Total	30.0	33.7
55-64 Men	39.1	42.6
55-64 Women	21.1	25.1
Age 15 and older		
Total	-	61.8
Men	-	67.8
Women	-	55.7

Source: Federal Planning Bureau and Eurostat.

The active population, of which the evolution depends on the increase of the working age population as well as on the increase of the activity rate, would increase considerably in 2005, to 4.85 million people. Because of the fact that this supplementary labour offer will only be partly absorbed by the demand for labour forces, the number of job seekers would increase with 17,000 units in 2005. In percentage of the active population, according to the surveys on the labour forces, the harmonised unemployment rate would thus increase from an average of 8.6% in 2004 to 8.7% in 2005.

In order to catch up the employment arrears with regard to our European partners, it is necessary to extend the growth potential of the Belgian economy and to further increase the labour intensity of the growth. Thereto, it is necessary to remain attentive to a *strict control of the labour costs*, by means of a responsible wage policy and – taking into account the budgetary restrictions – tax reduction that should in the first place be aimed at groups whose durable integration in the labour market seems problematic.

Table 4: Reduction of the social contributions and wage subsidies (in million EUR)

	2004	2005	2006	2007	2008	2009	2010
1.Reduction of the employers' contributions	3,807	4,242	4,298	4,330	4,369	4,424	4,484
2. Wage subsidies	824	1,139	1,390	1,438	1,460	1,487	1,515
Total in favour of the enterprises (1 + 2)	4,631	5,381	5,688	5,767	5,829	5,910	5,999
3. Reduction of the personal contributions	146	234	321	408	364	332	308

Source: FEDERAL PLANNING BUREAU, Economic perspectives 2005-2010, Chapter VIII, Table 5, p. 143.

Secondly, the functioning of the labour market has to be further improved, a.o. in order to resolve the problems with regard to the tuning of the labour offer to the labour demand. Still too many vacancies remain open because no persons with the required skills can be found locally. With regard to this, studies have shown that a better tuning of offer and demand can only be realised by creating the necessary conditions for more (geographic and professional) mobility and a better access to initial and continues professional training for all, with a strict application of the policies for equal opportunities.

With regard to the reinforcement of the labour offer, it is necessary to start mobilising categories of persons which are now underrepresented in the active population, such as young persons, women, immigrants and persons aged 55+. Thereto, the choice to work should be rewarded financially. In order to make working financially more attractive (“making work pay”), the Belgian government has taken measures to eliminate certain financial traps. In this context, the system of local employment agencies, which caused important financial traps in practice, was abolished and replaced by the system of the "service cheques". The tax credit was also replaced by the so-called "working bonus", so that the financial incentive for working no longer only appears at the moment of the final tax settlement, but much sooner.

Nevertheless, a number of financial traps remain. For examples, the traps are more frequent when the person concerned receives the maximum unemployment benefit, or when the job is paid a t the minimum wage. Households whose only income is an unemployment benefit and of which the non-active partner wants to start working are also more often faced with financial traps. Finally, the switch to a part-time job implies a greater risk to a financial trap than the switch to a full-time job.

However, there are more elements that influence the decision to enter the labour market. In this regard, the government has taken measures recently to improve the availability of the beneficiaries of unemployment benefits for the labour market. This new system provides

individual counselling for the unemployed persons. Formation and training are necessary in order to be able to tune the qualifications and the skills of the unemployed persons better to the labour demand. Thereto, the necessary means should be provided for an efficient counselling for all unemployed persons and for the training and retraining of adults. On the other hand, it is checked whether the unemployed persons indeed make efforts to find a job.

The analysis of the ends of career shows that the current regulation gives the employers as well as the workers financial stimuli to quit early after the age of 55. In this context, the government reduced the social charges for older workers in 2004. It also introduced a supplement for the resumption of work (a supply measure with possible favourable effects on the demand) and the obligation to "outplacement" by the employer for dismissed workers aged 45 and older. Moreover, on the basis of the measures proposed by the government, a tripartite Conference (government and social partners) with regard to the end of career problems was set up very recently.

Finally, there are too many – especially older – salaried workers who are insufficiently retrained to actualise their skills or to reorient their professional career. They are expelled from the labour market because their productivity in the function they execute is insufficient to justify the labour costs. This pleads for a reduction of the labour costs for unskilled workers and for investments in human capital. The continued professional training is an excellent means to acquire new skills and to actualise one's qualifications throughout his or her professional life. In this context, efforts have been made to extend the training offer and the objectives set by the social partners to increase the participation in life-long learning are very encouraging.

Table 5: Early retirement (in thousands) – 2003

	Older unemployed persons		Early retired persons		Inability to work		Pensioners (retirement pensions and survivor's pensions)	
	Men	Women	Men	Women	Men	Women	Men	Women
Age 50	0.3	0.5	0.2	0.1	4.0	3.8	1.0	3.3
Age 51	2.9	4.0	0.3	0.1	4.3	3.9	1.1	3.6
Age 52	4.1	5.6	1.2	0.2	4.5	3.7	1.2	3.8
Age 53	5.0	6.2	1.6	0.3	4.8	3.9	1.3	4.5
Age 54	5.8	6.7	2.2	0.4	5.3	3.8	1.3	4.8
Age 55	6.4	7.1	3.8	0.8	5.7	4.0	1.4	5.7
Age 56	7.3	7.6	5.6	1.1	5.9	4.1	2.1	6.4
Age 57	7.5	7.2	6.4	1.1	6.4	4.1	2.5	7.3
Age 58	7.4	7.0	8.5	2.0	5.7	3.7	2.2	6.9
Age 59	7.6	6.8	9.6	2.5	5.9	3.6	2.4	7.5
Age 60	5.8	4.3	9.4	2.5	5.5	3.1	14.1	14.6
Age 61	4.6	3.3	9.1	2.3	4.9	2.6	17.4	16.7
Age 62	4.5	1.7	9.8	1.5	4.6	2.4	17.5	16.7
Age 63	4.6	0.0	11.7	0.0	5.1	0.2	21.2	35.1
Age 64	4.7	0.0	13.8	0.0	5.5	0.0	24.2	38.7

*Persons receiving both a pension from the scheme for salaried workers or the scheme for self-employed persons as well as from the scheme for civil servants are counted twice. The number of pensioners in the schemes for salaried workers and self-employed persons are counted on 1 January 2004.

Source: Federal Planning Bureau.

3.2.2. Sustainability of the public finances and equity between the active population and the pensioners

3.2.2.1. Policy objectives

Doelstelling 6: Reform pension systems in appropriate ways taking into account the overall objective of maintaining the sustainability of public finances. At the same time sustainability of pension systems needs to be accompanied by sound fiscal policies, including, where necessary, a reduction of debt. Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds.

Doelstelling 7: Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter.

In the medium term, as well as in the long term, the pursued policy is centred on guaranteeing the sustainability of the public finances and on maintaining a high level of social protection – which implies adequate pensions – without increasing the obligatory withholdings however, because this would harm the economic performances.

These are the concrete outlines of this policy:

- Limit the future increase of public expenditure for pensions by means of a strict parameterisation of the mode of calculation (cf. 3.2.2.2.). Still, the insurance function of the system remains predominant and correcting mechanisms should protect the lowest pensions against the consequences of this strictness (cf. 3.1. Adequate pensions).
- Globalise the financing of the social security system ("global management of the social security system") to obtain a centralised resources management and a distribution of the means over the different branches (pensions, unemployment, invalidity, family allowances, sickness and invalidity insurance ...) strictly according to the needs. Thus, the financial challenge of ageing in Belgium not only concerns the pensions, but the social security system as a whole.
- Reduce the public debt and the interest burden by means of a strict budgetary policy and build up a reserve fund (ageing fund) that can finance the increase of pension expenditure without having to increase the pressure of the obligatory withholdings and still aiming to reduce the public debt.
- Monitor the medium-term budgetary objectives every year in order to attain a debt reduction rhythm compatible with the estimates of the budgetary costs of ageing. In practice, the Committee for the Study of Ageing has been created: this committee draws up a report on the budgetary and social consequences of ageing every year. On the basis of this annual report, the "Financing Requirements" section of the "High Finance Council" draws up a strict budgetary trajectory in order for the decrease of the interest burden and the financing of the ageing fund to be important enough to counterbalance the costs of ageing.
- Reform the labour market in order to increase the employment rate, namely that of the older workers (cf. point 3.2.1.), to reinforce the growth potential of the economy and to moderate the growth of the social expenditure; further reforms should make it possible to reduce the expenditure for ageing.

3.2.2.2. Description of the current policy

Lines of policy

- **Implementation of the last phase of the pension reform, which brings the pensionable age of women to the same level of the pensionable age of women (65 years) and which reinforces the conditions for access to early retirement.**
- **Maintain a strict parameterisation of the mode of calculation of the pensions.**
- **Continue the debt reduction by means of a persistent budgetary equilibrium.**
- **Redefinition of the objectives for a budgetary surplus in the medium term and of the strategy for the financing of the ageing fund.**
- **Avoid an increase of the withholdings for the future active population.**

Controlling the future increase of the pension expenditure

Controlling the future increase of the pension expenditure supposes the implementation of the last phases of the pension reform on the one hand and the maintenance of the strict parameterisation of the mode of calculation of the pensions.

The implementation of the last phase of the pension reform brings the legal pensionable age of women in the general social security scheme to 64 in 2006 and to 65 in 2009. At the same time, the required career length for a full pension is increased to 44 years in 2006 and to 45 years in 2009. Thus, the regulations applicable to men and women will be equal in 2009.

The career condition for early retirement between the age of 60 and the age of 65 (without prejudice to the application of the calculation break of the pension) is 35 years in 2005.

The stable legislation makes it possible to determine a durable method for the calculation of the pensions, which moderates the future increase of the pension expenditure. In the scheme for salaried workers – which applies to the large majority of the present and future pensioners – the most important parameters are:

- *the full career that is necessary to obtain a "full" pension has a duration of 45 years⁸;*
- *the basic wage is the average wage over the entire career (with a revaluation of the wages during the career only on the basis of the inflation).*

⁸ For men and also for women as from 2009.

- *a wage ceiling (indexed to the wages) evens out the wage amount that is actually taken into account for the calculation;*
- *for a full career, the pension is equal to 75% or 60% of the basic wage, depending on whether or not the person has to support a partner. The trend increase of the female activity rate increases the proportion of the pensions for which the 60% percentage is applicable;*
- *The indexation of the pensions to the prices is the rule; the additional adaptations are selective and targeted (cf. 3.1. Adequate pensions).*

Further debt reduction by means of an ambitious budgetary policy

The financing capacity of the entirety of the Belgian public authorities shows a balance or a slight surplus since 2000. The public debt, which still amounted to 136.7% of GDP in 1993, has thus decreased to 109.0% in 2000 and 95.8% in 2004.

The objectives set by the government in the Belgian stability programme had to balance the budget until 2006 and subsequently further reinforce the reorganisation policy by realising a budgetary surplus in the medium term (0.3% of GDP in 2007 and 0.6% in 2008). On the basis of the recommendations made by the High Finance Council, the objective is to increase this surplus to 1.5% of GDP at the beginning of the next decade. This surplus has to be transferred to the ageing fund, which will only be decapitalised as from 2005.

This strategy makes it possible:

- *to decrease the interest charges in such way by 2030 that the budgetary costs of ageing can be paid from it;*
- *to spend a part of the margin, which was cleared in the short or medium term by the decrease of the interest charges, to the financing of the future increase of the pension expenditure. This strategy respects the principle of equity between generations: it makes it possible to avoid an increase of the weight of the obligatory withholdings on the future generations. The ageing fund is namely used over a period during which the decrease of the interest charges is lower than the budgetary costs of ageing (2015-2030); if that were not the case – e.g. in a scenario which only aims to maintain the budgetary balance – the decrease of the interest charges could be used massively in favour of the active population of today, at the expense of the active population of tomorrow, for who the obligatory withholdings would thus increase.*
- *to demonstrate the engagement of the government to spend extra budgetary means to social security, in order to be able to pay the increasing pension expenditure as a result of ageing.*

These ambitious budgetary objectives can of course only be realised on the condition that a strict budgetary policy is pursued. Taking into account the economic growth perspectives and the existing policy, measures are necessary in order to remain close to

the budgetary balance in 2005 and 2006 and to attain the surpluses programmed after 2007.

3.2.2.3 Expected evolutions

The figures of the Federal Planning Bureau below were obtained in the framework of a projection exercise executed on the account of the Committee for the Study of Ageing. Only the figures with regard to the future evolution of the social expenditure were actually published in the annual report of this Committee⁹; nevertheless, all the other data mentioned below come from this same projection exercise.

The Committee presents different scenarios in its report, but it nevertheless prefers a scenario based on a partial adaptation of the social benefits to the general evolution of prosperity (+1% per year in real terms for the fixed benefits and +0.5% for the other benefits, against 1.75% average wage increase). This hypothesis does not take into account the selective, targeted and discretionary character of the adaptations. However, it makes it amply possible to simulate its average impact on the benefits and the budgetary consequences, with regard to the trends as well as with regard to the order of magnitude.

The increase of the employment rate in these perspectives (table 6) reflects the increased activity rate among women – simply because of the higher activity rate among the new generations of women - on the one hand and the results of the measures that have been taken on the other hand.

Table 6: Evolution of the employment rate in Belgium 2004-2030

	2004	2010	2020	2030
Total in % of the population aged 15-64	61.8	63.2	66.1	67.6
Age 15-54	66.3	68.3	71.3	71.8
Women	61.3	65.0	69.6	71.0
Men	71.1	71.6	72.8	72.6
Age 55-64	33.7	36.2	40.5	42.7
Women	25.1	31.0	36.1	39.6
Men	42.6	41.6	45.0	45.7
Age 55-59	45.9	50.8	57.6	60.1
Women	35.2	43.0	52.2	56.1
Men	56.6	58.5	63.0	64.1
Age 60-64	17.1	19.9	23.6	25.0
Women	10.7	16.6	21.5	22.8
Men	23.8	23.2	25.7	27.3

Sources: HIGH FINANCE COUNCIL, Committee for the study of ageing, Annual report 2005, table 5, p. 30 and FEDERAL PLANNING BUREAU.

The hypotheses with regard to employment, linked to the population perspectives, make it possible to determine the evolution of the dependency coefficients (the ratio between the inactive population aged 65 and older – aged 60 and older – and the active working population younger than 65 – 60). Between 2004 and 2030, these coefficients increase with about 40% (table 7).

⁹ Committee for the study of ageing, Annual report 2005.

Table 7: Evolution of the dependency coefficients 2004-2030

	2004	2010	2020	2030
Age 65 and older	41.8	41.0	47.0	57.7
Age 60 and older	52.6	54.2	61.5	72.5

Sources: HIGH FINANCE COUNCIL, Committee for the study of ageing, Annual report 2005 and FEDERAL PLANNING BUREAU.

In this context, the evolution of the expenditure of the different public pension schemes would be the evolution as shown in table 8. Between 2004 and 2030, the budgetary costs of ageing with regard to pension expenditure amount to 3% of GDP, of which 2.3% of GDP can be attributed to the general scheme for salaried workers and 0.6% of GDP to the pensions for civil servants. Over the period 2004-2030, the share of the public pension expenditure in the GDP would increase with 1.1% per year. This increase can mainly be attributed to the ageing of the population (+1.6%) and the increase of the average pension (+1.5%). However, this last increase is below the increase of productivity (+1.7%). This phenomenon and the moderate increase of the employment rate (+0.3%) moderate the growth of the share of the pension expenditure in the GDP.

Table 8: Public pension expenditure (in % of GDP) and the main explanatory factors

	2004	2010	2020	2030
Public pension expenditure in % of GDP				
Pension expenditure in % of GDP	9.3	9.0	10.4	12.3
I. Scheme for salaried workers	5.1	5.1	6.1	7.4
II. Scheme for self-employed persons	0.7	0.7	0.7	0.7
III. Public sector	2.8	2.7	2.9	3.4
IV. Other *	0.6	0.6	0.7	0.8
	2004-2010	2010-2020	2020-2030	2004-2030
Explanatory factors** (average yearly growth rates, in %)				
Pension expenditure/GDP	0.4	1.4	1.7	1.1
Pensioners/Pop. age 65 and +	1.4	1.7	1.5	1.5
Pop. age 65 and +/Pop. age 15-64	0.1	0.0	0.0	0.0
Pop. age 15-64/Employment	0.2	1.9	2.3	1.6
Employment/GDP	-0.4	-0.4	-0.2	-0.3
	-1.6	-1.8	-1.8	-1.7

*Especially the pensions of the public enterprises, the expenditure of the social assistance scheme (Guaranteed minimum income for elder persons and GIEP) and the pensions of the Overseas Social Security Office.

**Without the "other" public pension expenditure (I.+II.+III.).

Sources: HIGH FINANCE COUNCIL, Committee for the study of ageing, Annual report 2005 and FEDERAL PLANNING BUREAU.

In the field of public finances, Belgium has committed itself to pursue the budgetary strategy set out in the stability programme. Table 9 describes this strategy. After 2015, a scenario of gradual return to the budgetary balance that would thus be attained in 2030 has been used. In the medium term, a budgetary effort has to be made in order to follow the strategy set out in the stability programme. As from 2007, the primary surplus has to be increased to 4.9% of GDP in 2010. Between 2010 and 2030, the primary surplus could decrease to 3.6% of GDP without a negative budgetary balance, which would allow to finance the increase of social expenditure (3.8% of GDP between 2010 and 2030).

Table 9: Budgetary strategy

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	2030
Budgetary objective	0.0	0.0	0.0	0.3	0.6	0.9	1.1	1.3	1.5	1.5	1.5	1.5	0.9	0.4	0.0
Interests on public debt	4.9	4.5	4.3	4.2	4.1	3.9	3.8	3.5	3.3	3.1	2.9	2.7	1.9	1.4	1.0
Necessary primary balance	4.9	4.5	4.3	4.5	4.7	4.8	4.9	4.8	4.8	4.6	4.4	4.2	3.4	2.2	1.3
Social expenditure	23.5	23.5	23.4	23.5	23.6	23.5	23.5	23.5	23.6	23.7	23.8	23.9	24.9	26.2	27.3
Public debt	95.8	94.9	90.4	86.5	82.6	78.5	74.4	70.1	65.9	61.8	58.0	54.3	38.5	27.4	21.0
P.M.															
Social security receipts	19.7	19.7	19.5	19.5	19.5	19.6	19.6	19.7	19.7	19.7	19.7	19.8	20.7	21.9	22.9
Actual contributions	13.5	13.4	13.3	13.4	13.4	13.5	13.6	13.7	13.7	13.7	13.7	13.7	13.8	13.8	13.9
Taxes	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Other receipts*	5.3	5.5	5.3	5.3	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.3	6.1	7.2	8.2
Social security expenditure	19.8	19.7	19.7	19.8	19.8	19.7	19.7	19.7	19.8	19.8	19.9	20.0	20.8	21.8	22.6

*Mainly transfers from the other public authorities

Sources: FEDERAL PLANNING BUREAU¹⁰

As from 2007, the budgetary surpluses of the federal government and the social security surpluses would be used to finance the ageing fund (table 10). As from the year that the public debt amounts to 60 % of GDP, the ageing fund will finance the increase of the public pension expenditure (expressed in % of GDP).

Table 10: The ageing fund

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	2030
Deposits	1.8	0.2	0.0	0.3	0.5	0.7	0.9	1.1	1.3	1.3	1.3	1.3	1.3	0.8	0.3
Received interests	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.7	0.6	0.2
Transfers to the pension schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	1.1	2.2	3.2
Capital	1.8	2.0	2.0	2.3	2.9	3.6	4.5	5.7	7.0	8.4	9.6	10.8	14.4	11.9	0.8

Sources: FEDERAL PLANNING BUREAU¹¹

¹⁰ On the basis of:

HIGH FINANCE COUNCIL, Committee for the study of ageing, Annual report 2005.

FEDERAL PLANNING BUREAU, Economic perspectives 2005-2010.

BELGIAN FEDERAL STATE: Belgian Stability programme 2005-2008 (Update 2004).

HIGH FINANCE COUNCIL, "Public Financing Requirements" section, Annual report 2004.

¹¹ On the basis of:

HIGH FINANCE COUNCIL, Committee for the study of ageing, Annual report 2005.

FEDERAL PLANNING BUREAU, Economic perspectives 2005-2010.

BELGIAN FEDERAL STATE: Belgian Stability programme 2005-2008 (Update 2004).

HIGH FINANCE COUNCIL, "Public Financing Requirements" section, Annual report 2004.

3.2.3. Efficient management of the private pension provisions

3.2.3.1. Policy objectives

Objective 8: Ensure, through appropriate regulatory frameworks and through sound management, that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security.

Contribution of pre-funding with regard to the general objective of financial sustainability

It is often assumed that countries with a rather developed repartition pillar have a handicap compared to countries with a capitalisation system with regard to demographic developments and financial sustainability. However, this could be an optical illusion. Macro-economic bookkeeping learns that pensions, no matter according to which financing system they are built up, represent a certain claim on produced services and goods. The actual cost of each pension scheme corresponds to what the pensioners spend on goods and services that have to be produced by the active population at that moment. In these terms, the ageing problem can thus be reduced to the problem of an increasing spending share¹². The financing system on which the pensions are based is thus of no importance. The traditional discussions on the opposition between repartition and capitalisation divert our attention from the really important question: **which objectives have to be attained by the pension schemes?**

3.2.3.2. Description of the current policy

Even though at macro-economic level, in the long term, there is no major difference for the financial viability between the pension schemes based on repartition and the pension schemes based on capitalisation, at micro-economic level, the necessary correction have to be provided in order to guarantee the social objectives, which has been done in the Belgian Law on complementary pensions. In a small group or a non-statutory scheme, repartition cannot be appropriate, because it is difficult to overcome a change in the group structure. That is why the complementary pension schemes, and as from 1 January 2004 also the sectoral schemes and the individual pension commitments, are obligatory financed on the basis of capitalisation. The rights built up by the individual can thus be preserved, in this case to make it possible in the short term to transfer the acquired rights in the event of a change of employer.

¹² John Myles, *A New Social Contract for the Elderly*, in G. Esping-Andersen: *Why We Need a New Welfare State*, 2002, Oxford University Press.

A. Lines of policy

Measures taken in order to manage the assets of pension schemes in a safe and efficient way.

- *First pillar: constitution of reserves in the ageing fund.*
- *Second pillar:*
 - o *Supervision by the Banking, finance and insurance commission.*
 - o *Guaranteed yield on the personal contributions.*

Preserve the rights built up by individuals.

A.1. First pillar

The realisation of budgetary surpluses and the constitution of reserves in the ageing fund result in the accelerated reduction of the public debt. The ageing fund was established in 2001 as a public institution with a legal personality in order to finance the extra pension expenditure arising between 2010 and 2030. The investments of the fund amount to 12,492 billion EUR on 31 December 2004. These revenues are invested in "Treasury certificates-Ageing fund" with capitalised interests, which will be paid out in one time on the date of maturity in 2010. The interest rate granted by the Treasury is calculated on the basis of the linear bond interest curve.

A.2. Second pillar

Since 1 January 2004, a new law is applicable to the complementary pensions¹³, because of which sectoral schemes¹⁴ and individual pension commitments, which provide a complementary pension, also have to comply with the rules of minimal financing, building up of the acquired rights, transferability of the acquired reserves in case of change of employer and transparency. These schemes are now also controlled by the Banking, finance and insurance commission. In that same law, the guaranteed yield was also generalised. Before, there was only a guaranteed yield on the personal contributions, which has been extended to the employer's contribution in the new law.

B. Indicators and contextual data

The administrative costs of pension schemes

First pillar.

The management costs with regard to the grant and the payment of the retirement and survivor's pension of the salaried workers and the self-employed persons amount to about 1% of the total expenditure in 2001.

¹³ Law of 28 April 2003 concerning the complementary pensions and the tax system of those pensions and of certain complementary benefits with regard to social security.

¹⁴ With a transitional period until 31 December 2006 for the existing sectoral schemes.

Second pillar

The administrative costs (cf. annex 6) very much depend on the vehicle chosen for the complementary pension provision. For the pension funds, the administrative costs amount to about 2% of the paid contribution, with a slightly increasing trend. For the insurance companies, the administrative costs vary from 4% to 7%¹⁵, according to the product. The figures of the last years show a downward trend.

In order to contain the costs of the pension schemes, the Law on complementary pensions provides a maximum cost percentage of a.o. 5% of the payments in the framework of the social plans.

3.2.3.3. Strategies to manage the assets of pension schemes in a safe and efficient way***First pillar***

As from 2007, a predetermine amount will be transferred every year from the budget to the ageing fund (0.3% of GDP).

The instruments for the management personal data (Crossroads bank for Social Security) and the collection of the contributions (via the National Office for Social Security), which used to be exclusively at the disposal of the social security institutions, are put at the disposal of the pension institutions, in the framework of the administrative simplification.

Second pillar

In the framework of the implementation of the European Directive on the activities and supervision of institutions for occupational retirement provision (2003/41/EC), arrangements are made with other control institutions for the surveillance of pension institutions exercising cross-boarder activities.

3.3. Modernisation of pension systems in response to changing needs of the economy, society and individuals

3.3.1. Adapt the pension systems to more flexible employment and more flexible careers**3.3.1.1. Policy objectives**

Objective 9: Ensure that pension systems are compatible with the requirements of flexibility and security on the labour market; that, without prejudice to the coherence of Member States' tax systems, labour market mobility within Member States and across borders and non-standard employment forms do not penalise people's pension entitlements and that self-employment is not discouraged by pension systems.

¹⁵ Administrative costs as well as commissions for insurances.

A pension scheme has to be adapted to the changes in society and on the labour market. The pension schemes are perfectly adapted to a life-long full-time career with the same employer. This does not correspond to the requirements of the modern labour market, nor with the preferences of a large number of persons. Flexibility in labour participation and mobility on the labour market should not be impeded by the pension system.

3.3.1.2. Description of the current policy

A. Lines of policy

Equal treatment

Legal pension schemes:

- no qualifying periods
- the same rights for building up a pension for atypical workers
- possibility to combine a pension with a professional income

Mobility:

- built up pension rights are maintained

A.1. Equal treatment (atypical working-time arrangements, ...)

First pillar

The scheme with which a person is affiliated depends on his activity status (salaried worker, self-employed person or civil servant). When the activity status of a person changes, he or she also moves over to the "new" scheme. There are no qualifying periods in the legal pension schemes: the insured person builds up rights as from the first day.

The atypical workers (part-time, temporary or seasonal employment) as well as the self-employed persons are not disadvantaged with regard to the acquisition of pension rights: the retirement pension is function of the earned professional income during the professional activity and of the duration of this activity. For the periods of inactivity in the framework of work redistribution measures (career interruption, time credit), the person concerned (women for the most) benefits from an assimilation and/or bonus years¹⁶ for the calculation of the pension.

For already retired persons, the limits for "authorised activity" are increased, which extends the possibilities to accumulate a pension and a professional income.

The minimum pension, the minimum right per career year and the assimilated periods are also granted under the same conditions as for full-time workers.

¹⁶ In the bonus year scheme, an equivalent of maximum 36 months is assimilated.

Second pillar

Part-time workers have identical rights with regard to access to complementary pension provisions as full-time workers. Also for temporary and seasonal workers, there are no special conditions.

Since 1 January 2004, self-employed persons can freely choose between the pension institutions for building up a second pillar pension, amongst the social insurance funds for self-employed persons or amongst the private insurance companies.

A.2. Mobility (change of job)***First pillar***

In the legal pension scheme, a change of employer in Belgium or abroad does not imply that the acquired pension rights are lost. However, it should be noted that the maintenance of the Belgian pension rights only applies to nationals of an EU country or a country with which a bilateral agreement has been concluded. The others have to reside in the Belgian territory in order to maintain their pension rights.

Second pillar

For salaried workers, the benefits with regard to the retirement pension are definitively acquired after one year of seniority and they can be transferred to the pension institution of the new employer when the employment contract is ended for other reasons than decease or retirement¹⁷.

3.3.2. More equality between women and men**3.3.2.1. Policy objectives**

Objective 10: Review pension provisions with a view to ensuring the principle of equal treatment between women and men, taking into account obligations under EU law.

The Belgian pension policy guarantees a totally equal treatment between women and men. A good pension scheme for flexible labour market participation helps to increase the equality between men and women, as women more often work part time and more frequently interrupt their career for their family.

3.3.2.2. Description of the current policy**A. Lines of policy**

- * Equal treatment with regard to the building up of pension rights.
- * Equal treatment with regard to the acquisition of derived rights.

¹⁷ These are the recognised insurers, pension funds and welfare funds ... established in Belgium with which the employer concluded an agreement.

A.1. The building up of pension rights

At this moment, the legal pension age within the scheme for salaried workers and self-employed persons is of 63 years for women and of 65 years for men. The pension for women is calculated on a 43 year career and on a career of 45 years for men. As a result of the 1997 pension reform, the legal pensionable age and the calculation fraction for women will be equated with these for men as from 2009, as well in scheme for salaried workers as in the scheme for self-employed persons.

The introduction of the minimum right per career year in the scheme for salaried workers in 1997 mainly results in an increase of the retirement pension of the new pensioners that had a poorly paid, short or part-time career. Women are often in this case.

Also in the scheme for self-employed persons, the pension reform provides corrections which are especially favourable for the retired self-employed persons. As from 1 July 2005, the "maximum status" generalises the pension rights from the scheme for self-employed persons to all "collaborating spouses" (often women) and makes it possible to build up their proper pension rights.

A.2. Derived rights in the pension sector

With regard to the derived rights (survivor's pension), it is the rule that the surviving partner, no matter whether this is a man or a woman, can enjoy the benefits under the same conditions.

In the public sector, there is no discrimination between men and women: the way in which the pension is calculated as well as the pensionable age are identical. The assistance schemes for older persons makes do not make any discrimination either.

3.3.3. Demonstrate that the pension scheme can cope with the problems.

3.3.3.1. Policy objectives.

Objective 11: Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regard to the likely evolution of benefit levels and contribution rates. Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies.

It is a permanent concern of the government to realise the various aspects of this objective in our modern society. On the basis of the following survey of the current policy, it appears that concrete new initiatives have been taken since the first strategy report, a.o. with regard to access to information.

3.3.3.2. Description of the current policy.

A. Lines of policy

The broadest possible consensus with regard to the pursued social policy

* **Establishment of consultative bodies**

Charters

* **Charter of the socially insured person**

* **Administration contracts with the public social security institutions**

Information

Pension ombuds service

A.1. The broadest possible consensus with regard to the pursued social policy

In Belgium, since 1944, a broad social consensus about the foundations of the social policy was reached. In this context, the social partners were involved in different levels of the social security policy. Each reform, change or improvement of the system is preceded by general consultation procedures, which have to guarantee and consolidate the existence of this social consensus. The executive social security institutions are thus managed jointly.

Installation of consultative bodies (cf. annex 7)

The different consultative bodies are a.o. the National Labour Council, the General administration committee for self-employed persons, the A-Committee and the Consultative Committee for the pension sector.

A.2. The Charter of the socially insured person and the Administration contracts

The Charter of the socially insured person obliges the social security institutions to provide all persons with useful information with regard to their rights and obligations, from their own initiative or upon written request.

The Charter of the socially insured person can be legally invoked by a socially insured individual against the social security administration institution.

The administration contracts are agreements that are concluded between the Government and the public social security institutions (among which the National pension office and the National institute for the social security of the self-employed). They thus only bind the contracting parties. It is thus impossible for individual socially insured persons to invoke the provisions of the administration contracts. However, the particularity of these contracts is that they explicitly provide that the institutions have to meet the obligations provided by the Charter.

A.3. Direct obligation to provide information

In the framework of the second pillar insurances, the employer has to inform the participant at least once a year of the amount of the acquired benefits, as well as of the acquired reserves and of the date on which they are due:

- the content of the yearly communication to the participants has been extended.
- the pension institution makes an annual report about the management of the institution (financing, investment¹⁸, return, costs...) that is communicated to the participants upon request.
- a historical survey of the individual account has to be communicated upon request

The arrears with regard to the obligation to provide information in the legal pension schemes, compared to the second pillar scheme, are made up by means of the following initiatives (cf. annex 7):

- the pension information service;
- automatic estimation of the future pension;
- an extract from the pension account;
- a "green" telephone number;

A.4. Pension ombuds service

In 1999, a *Pension ombuds service* was created. The mission of this service is to mediate (free of charge) in conflicts between the Pension administration institutions and the socially insured persons. This mediation can be related to complaints with regard to the granted rights or with regard to the functioning of the pension services. On the other hand, the Pension ombuds service can also formulate recommendations in order to improve the functioning of the pension services. The Pension ombuds service also reports to Parliament every year.

All these information services are free of charge and accessible for all, also via the internet.

B. Indicators and contextual data

The administration contracts and the controlling the execution of these contracts

The royal decree of 3 April 1997 introducing the administration contracts between the government and the public social security institutions also provides a number of indicators with regard to the execution of these contracts. In March 2005, the audit office drew up a report for the Chamber of Representatives with regard to the use of this management instrument. The conclusion of this report was that the State has not yet completed the necessary structural reforms in order to make successful use of this kind of instruments. However, the first steps have been taken.

The first results of the control by the federal government of the executions of the administration contracts have shown that the imposed objectives with regard to deadlines and the obligations to provide the socially insured persons with information have been realised.

¹⁸ The investment policy and the social, ethical and environmental aspects of the durable investments have to be elucidated.

The Pension ombuds service

Every year, the Pension ombuds service receives a rather constant number of complaints (1770 in 2004) with regard to all pension services. 64% of these complaints are admissible and are thus further examined.

TABLE OF CONTENTS

1. Preliminary remarks.....	2
2. The most important characteristics of and the challenges for the national pension system	4
2.1 The pension system in Belgium	4
2.2 The present challenges and the context of the national pension system	5
3. Attain common objectives	8
3.1 Adequacy of pensions	8
3.1.1. Policy objectives	8
3.1.2. Description of the pursued policy	9
3.1.3. Challenges for the future policy	25
3.1.4. Strategies for adequate pensions in the future.....	26
3.2 Financial sustainability of the pension schemes.....	28
3.2.1. Employment and labour market participation of older workers	28
3.2.2. Sustainability of the public finances and equity between the active population and the pensioners	31
3.2.2.1. Policy objectives	31
3.2.2.2. Description of the current policy.....	33
3.2.2.3 Expected evolutions	35
3.2.3. Efficient management of the private pension provisions	39
3.2.3.1. Policy objectives	39
3.2.3.2. Description of the current policy.....	39
3.2.3.3. Strategies to manage the assets of pension schemes in a safe and efficient way	41
3.3. Modernisation of pension systems in response to changing needs of the economy, society and individuals	41
3.3.1. Adapt the pension systems to more flexible employment and more flexible careers	41
3.3.1.1. Policy objectives	41
3.3.1.2. Description of the current policy.....	42
3.3.2. More equality between women and men.....	43
3.3.2.1. Policy objectives	43
3.3.2.2. Description of the current policy.....	43
3.3.3. Demonstrate that the pension scheme can cope with the problems.	44
3.3.3.1. Policy objectives.	44
3.3.3.2. Description of the current policy.....	45

Annexes