

BELGIUM

Key characteristics of the pension funds market



1	Introduction	2
1.1	General	2
1.2	Balance sheet.....	2
2	Investments	4
2.1	Asset exposures.....	4
2.2	Equity exposure.....	4
3	Occupational pension schemes	6
3.1	Cash flow	6
4	Prudential regime, accounting & tax framework	7
4.1	Accounting framework	7
4.2	Prudential regime.....	7
4.3	Tax framework	7
5	Historical data	8

1 Introduction

1.1 General

The EIOPA statistics for Belgian occupational pension funds cover only the defined benefit (DB) plans. The table below illustrates the submissions in Belgium by pension fund activities, and demonstrates the importance of the Belgian pension fund markets relative to those of other EU member states, based on total assets.

At the end of 2017 (2017 Q4), 196 Institutions for Occupational Retirement Provision (IORPs) and 563 occupational retirement schemes submitted their reporting package to the Belgian National Supervisory Authority (NSA), the Financial Services and Market Authority (FSMA). Overall, these institutions account for 13,1% of the IORPs and 1,3% of the occupational retirement schemes within the European Union (EU).

Table 1 – Occupational pension funds by type

In Mio EUR	Amount	%
Defined Benefit schemes (DB)	32 011	100,00%
Defined Contributions schemes (DC)	0	0,00%
Hybrid schemes (HY)	0	0,00%
Total	32 011	100,00%
Total assets BE / Total assets EU %		0,87%
Ranking BE based on Total assets EU		6

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

1.2 Balance sheet

As of end 2017 (2017 Q4), the Belgian pension funds market is ranked sixth in the EU in terms of assets, reporting a total of 32 000 million EUR.

Belgium also is ranked sixth in terms of absolute total investments, reporting 29 000 million EUR. This accounts for the majority (93,7%) of pension funds' total assets with the remainder being accounted for in reinsured technical provisions (1,2%) and other assets (5,2%).

For technical provisions, 77,9% of Belgian pension funds' total balance sheet are related to pensions, while 1,9% represents other liabilities. The excess of assets over liabilities is 6,5 billion EUR, or 20,2% of the balance sheet total, ranking Belgium fifth within the EU in terms of excess of assets over liabilities.

**Table 2 - Balance sheet and EU comparison of occupational pension funds**

	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Total investments	29 989	6	93,68%	92,32%	89,43%	0,00%	100,00%	21,25%
Reinsured technical provisions	367	7	1,15%	1,60%	3,11%	0,00%	26,78%	7,68%
Other assets	1 655	6	5,17%	6,08%	4,21%	0,46%	18,90%	5,00%
Total assets	32 011	6	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%
Technical provision for pensions	24 930	7	77,88%	99,26%	80,16%	0,42%	150,71%	38,15%
Other liabilities	606	6	1,89%	0,66%	7,67%	0,34%	70,91%	18,13%
Total liabilities	25 536	7	79,77%	99,93%	67,74%	0,00%	151,82%	48,56%
Excess of assets over liabilities	6 475	5	20,23%	0,07%	32,26%	-51,82%	100,00%	48,56%
Total liabilities + Excess of assets over liabilities	32 011	6	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2 Investments

2.1 Asset exposures

From an asset exposure perspective, the pension funds market in Belgium is heavily invested in UCITS, which make up 77,6% of total investment. Within this category, debt securities and equity securities make up the majority of investment, 37,0% and 33,4% respectively. The remaining securities are either in real estate or other types of UCITS (0,4%, and 6,6% respectively). This ranks the pension funds market in Belgium as the second largest investor in UCITS among pension funds markets in EU Member States.

On the contrary, investment in debt and other fixed income securities, and equity and other variable-yield securities (excl. UCITS) by Belgian pension funds is relatively low, 12,5%, and 8,55% respectively. These figures are well below the EU average.

The remaining investments in Belgian pension funds' investment portfolios is allocated to derivative instruments, loans, real estate investment, and other investments. For all of these categories, their shares as a percentage of total investment are relatively modest, with none larger than 0,7%.

Table 3 – Total investments of occupational pension funds

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Debt and other fixed income securities	3 753	12	12,51%	53,75%	49,23%	12,51%	74,75%	17,30%
Sovereign	2 394	11	7,98%	34,52%	35,19%	4,38%	66,07%	18,72%
Financial	646	8	2,15%	10,37%	10,66%	1,45%	26,19%	7,89%
Other	712	10	2,37%	8,86%	13,27%	0,11%	68,50%	15,52%
Equity and other variable-yield securities (excl. UCITS)	2 565	8	8,55%	31,75%	21,78%	0,40%	68,00%	18,34%
Equity - listed	2 273	7	7,58%	27,94%	18,43%	0,26%	47,44%	14,27%
Equity - other	292	6	0,97%	3,78%	8,42%	0,14%	68,00%	21,01%
UCITS	23 269	2	77,59%	4,65%	30,43%	1,58%	77,59%	22,99%
Debt securities	11 113	2	37,05%	1,88%	13,21%	0,43%	37,05%	12,36%
Equity securities	10 040	2	33,48%	0,98%	15,63%	3,14%	33,48%	12,24%
Real estate	127	5	0,43%	0,30%	2,16%	0,43%	3,92%	1,45%
Other	1 990	3	6,63%	1,48%	13,33%	2,55%	40,07%	13,07%
Derivative instruments	29	2	0,10%	0,00%	0,13%	-0,04%	0,64%	0,22%
Loans	77	6	0,26%	1,21%	1,78%	0,00%	9,82%	3,16%
Real estate investments	82	11	0,27%	5,96%	3,81%	0,05%	11,37%	3,56%
Other investments	215	11	0,72%	2,68%	9,23%	0,72%	23,20%	6,41%
Total investments	29 989	6	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2.2 Equity exposure

The equity exposures of pension funds can be calculated and presented in different ways. The list below includes the following equity exposure views:

- Equity exposure as the sum of direct investments in equity: listed and other equity (e.g. unlisted equity).
- Equity exposure as the sum of both direct and indirect investments in equity. The indirect investments in equity include the holdings of equity by UCITS funds held by the pension funds.

Overall, the listed and unlisted equity amounts reported are considered and integrated as an equity exposure indicator.

**Table 4 – Equity exposures of pension funds**

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity and other variable-yield securities (excl, UCITS)	2 565	8	8,55%	31,75%	21,78%	0,40%	68,00%	18,34%
Equity - listed	2 273	7	7,58%	28,60%	28,60%	28,60%	28,60%	28,60%
Equity - other	292	6	0,97%	3,60%	3,60%	3,60%	3,60%	3,60%
UCITS								
Equity securities	10 040	2	33,48%	0,98%	15,63%	3,14%	33,48%	12,24%
Total equity exposure	12 604	6	42,03%	27,47%	1,80%	68,00%	16,17%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

In Belgium, we note that equity exposures coming from UCITS amount to 33,5% and are higher than the listed and unlisted equity exposures which in total amount to 8,6%. In 2017, the pension funds in Belgium invested almost four times as much in indirect equity (79,7% of total equity) than in direct equity (20,3% of total equity). Within the direct equity category, listed equity constitutes the bulk of investments with 7,5% of total investments, more than 7 times the amount invested in unlisted equity.

3 Occupational pension schemes

3.1 Cash flow

The cash flow of pension funds is important for the investment strategy. Indeed, depending on the investment horizon as well as the liquidity provided the pension funds are incentivised to take more or less risk and hold more or less liquid funds. In general, the longer the period in which the pension is due the more risk (higher share of equity investments) the pension fund can take, benefiting from the equity risk premium. Moreover, when the pension funds have a short-term payment commitment they need to hold more funds that are more liquid as well as more stable in value.

For cash flows, Belgium ranks relatively high in terms of cash flows from transfers of pension rights for entrants and leavers, which were reported at 3 800 million EUR and 600 million EUR respectively. This ranks the Belgian pension funds market third in the EU for net cash flow.

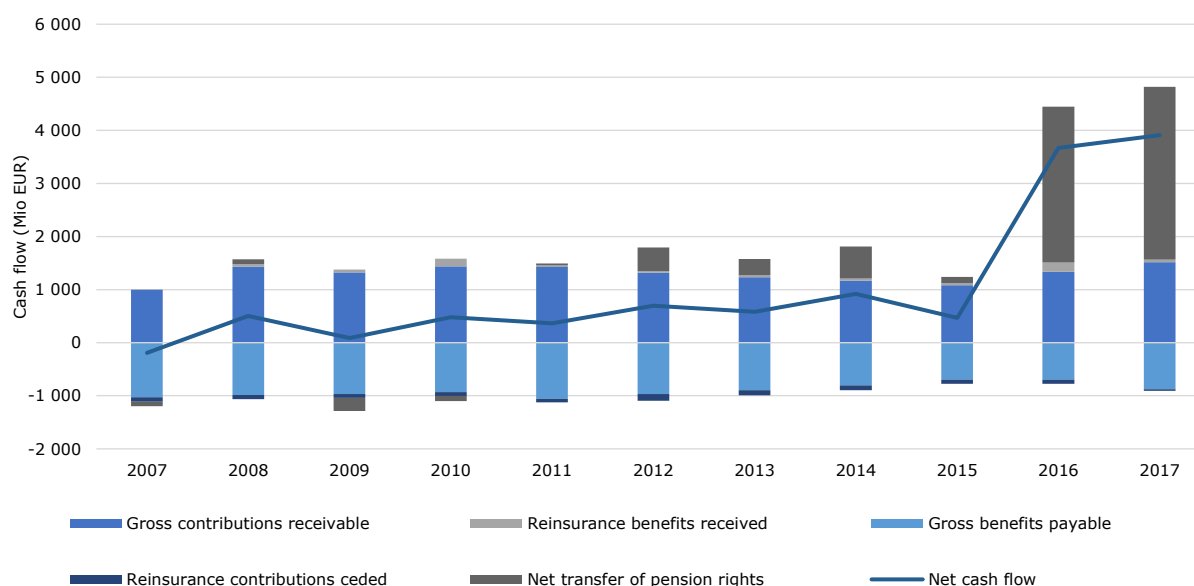
Table 5 – Cash flows of occupational pension funds

in Mio EUR / % of total investments	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Total gross contributions receivable	1 514	6	5,05%	8,01%	0,19%	17,86%	5,00%	0,00%
Reinsurance contributions ceded	29	7	0,10%	0,88%	-0,01%	4,69%	1,52%	0,00%
Total net contributions receivable	1 484	6	4,95%	7,59%	0,19%	17,86%	5,03%	0,00%
Total gross benefits payable	878,95	6	2,93%	4,19%	-3,98%	10,99%	3,36%	0,00%
Reinsurance benefits received	53	5	0,18%	0,63%	0,00%	3,02%	1,09%	0,00%
Total net benefits payable	825,58	7	2,75%	3,83%	-4,02%	10,99%	3,05%	0,00%
Transfer of pension rights (entrants)	3 861	3	12,88%	5,81%	0,00%	56,47%	15,00%	0,00%
Transfer of pension rights (leavers)	610	4	2,04%	1,37%	-0,09%	5,51%	1,70%	0,00%
Net cash flow	3 909	3	13,04%	6,34%	-6,20%	57,54%	12,69%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

The figure below presents an overview of the evolution of cash flows for occupational pension funds in Belgium between 2007 and 2017 by flow.

Graph 1 – Evolution occupational pension funds cash flows



Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis



4 Prudential regime, accounting & tax framework

4.1 Accounting framework

Typically, Belgian pension funds produce their financial accounts in accordance to the Belgian Accounting Law. Yet, in accordance with the EU Accounting Regulation (Regulation 1606/2002/EC), all domestic publicly traded companies are required to produce their financial accounts in accordance to IFRS standards. IFRS Standards are permitted for unlisted companies but their use is not mandatory. For the financial statements produced by the majority of Belgian pension funds, local GAAP is used.¹

4.2 Prudential regime

In 2013, the legislation introduced a 100,0% limit on direct equity exposure. This limit is applicable to both listed and unlisted companies. In addition, pension funds are subject to an upper investment limit of 5,0% in equity investment from a single issuer, or 10% from a group.

Overall, the prudential regime applicable for Belgian Pension Funds has been significantly updated since 2001, when investment in equity in listed and unlisted companies was limited to 65,0% and 30,0% respectively of the total fund's exposure. In 2002, the prudential regime was revised, removing the investment ceiling for listed equity but introducing a 10,0% limit for non-listed equity. In 2005, the latter was raised to 20,0% for companies under the supervision of the Banking, Finance and Insurance Commission (CBFA).² In 2007, all prior restrictions were temporarily removed.³

4.3 Tax framework

Pension funds in Belgium are subjected to a special tax regime, namely the so-called "Exempt-Exempt-Taxed" (EET) where beneficiary's contributions and funds' returns on the investments (including equity and dividends) are exempted, while withdrawals are subject to taxation (or partial exemption)⁴. However, the standard corporate tax rate (34,0%) is applied to the pension funds' taxable basis, which is constituted only by the following items: abnormal or benevolent advantages received, non-deductible expenses and secret commission paid.

¹ Source: Deloitte-CEPS analysis of annual reports of Belgian pension funds and IFRS country profiles.

² "Commission Bancaire, Financière et des Assurances"

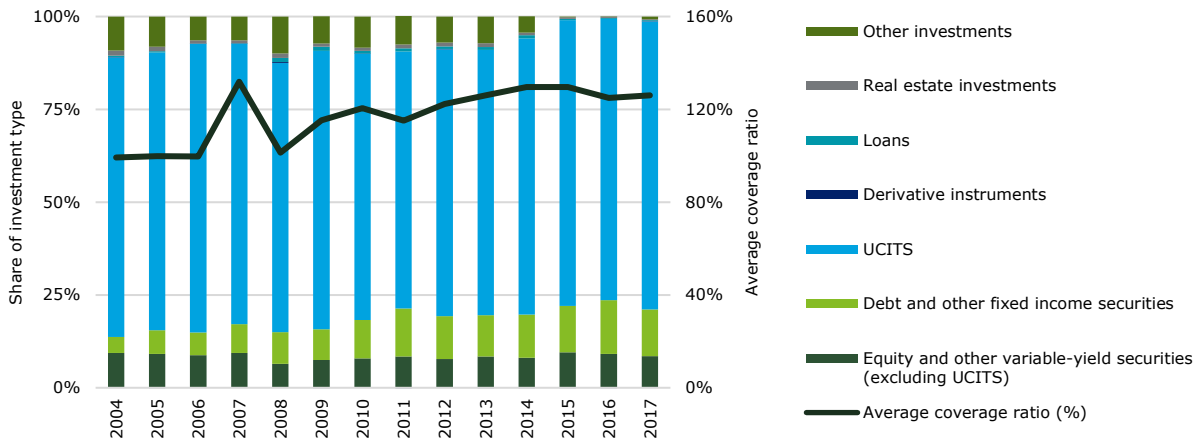
³ Source: Deloitte-CEPS analysis of the OECD Annual Survey of Investment Regulation of Pension Funds.

⁴ Source: OECD (2015) Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries

5 Historical data

The evolution of investments by Belgian pension funds, broken down by type of investment, between 2004 and 2017 are displayed in the figure below. Furthermore, the figure illustrates the change in the average coverage ratio for Belgium.

Graph 2 – Evolution investments and average coverage ratio

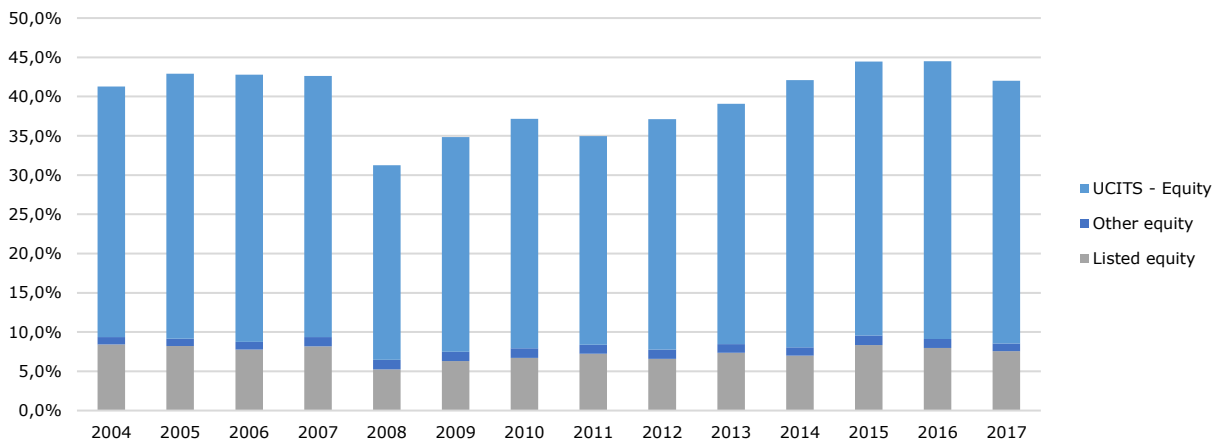


Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

The composition of Belgian pension funds' investment portfolios has remained relatively stable over time with a preference for UCITS (as previously discussed in Section 2). Belgian pension funds' investments in equity decreased substantially during the financial crisis of 2008, but recovered gradually since.

The trend in equity investment, broken down by type of equity, for Belgium is shown in the figure below.

Graph 3 – Evolution of investments by equity type



Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis