2015 Pension Policy Notes

BELGIUM

- **Close early exit pathways, better design financial incentives to work longer and create a uniform pension system.**
- **Improve activation policies, training opportunities and flexibility in the workplace.**

Belgium has a complex pension system based on three pillars. In the first pillar, the full minimum contributory pension is paid to pensioners who contributed for 45 years. This benefit is paid on a pro rata basis to those who have contributed for at least 30 years. On top of this, a minimum annual credit is granted to pensioners having earned low earnings during their working life (below EUR 22 190 per year on January 2013). Elderly people who are not entitled to a pension obtain a means-tested safety net. In the second pillar, PAYG pensions depend on lifetime earnings, on the duration of the career and on family status. To obtain a full-rate pension, individuals also need to have contributed for 45 years. The (net and gross) pension replacement rates for future retirees working a full career at the average wage will be rather low and below the OECD average. Currently, however, old-age poverty rates are below the OECD average and have steadily declined since the early 2000s. Private pensions, typically occupational, constitute the third pillar, mainly for white-collar employees in practice. The pension system for public sector workers is very different from that for private sector workers as, for example, pensions are based on the average earnings of the last 10 years before retirement.

Key indicators: Belgium and OECD average

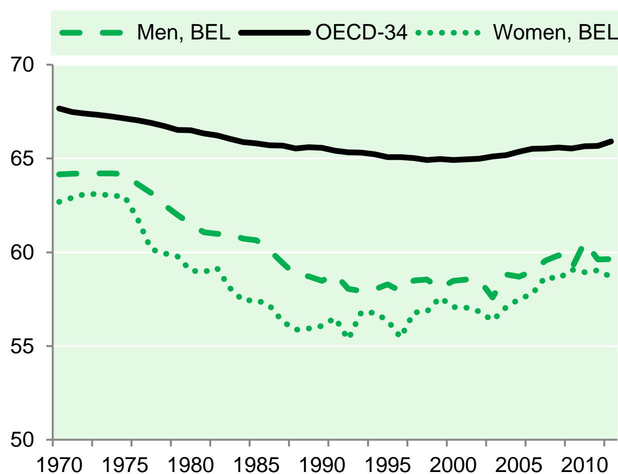
	Mid-1980s	Mid-1990s	Mid-2000s	latest available	latest OECD	long-term	long-term OECD
Pensionable age for a full-time career starting at the age of 20	65.0 (60.0)	65.0 (60.0)	65.0 (64.0)	65.0		65.0	
Retirement age	65.0 (60.0)	65.0 (60.0)	65.0 (64.0)	65.0	62.9 (61.8)	65.0	64.6 (64.4)
Net replacement rate, avg earner						60.9	63.2 (62.7)
Total mandatory contribution rate		16.4	16.4	16.4	19.1		
Total pension spending, % of GDP	9.7	10.7	10.4	11.4	10.3		
Public pension spending, % of GDP	9.3	9.4	9.1	10.3	8.4		
Public debt, % of GDP	130	152	108	130	115		
Employment rate 55-64, %	43.0 (10.3)	34.5 (12.7)	41.7 (22.1)	48.4 (37.0)	66.1 (49.1)		
Labour-market exit age	60.6 (57.5)	58.3 (56.4)	58.7 (57.6)	60.0 (59.3)	64.6 (63.1)		
Old-age poverty rate, %			15.9	10.7	12.6		
Life expectancy at 65, years	13.7 (17.8)	15.1 (19.3)	17.0 (20.6)	18.5 (21.7)	18.4 (21.5)	23.1 (26.1)	22.9 (25.9)
Old-age dependency ratio	0.23	0.27	0.29	0.31	0.28	0.54	0.57
Fertility rate	1.6	1.6	1.8	1.8	1.7	1.9	1.8

Note. The figures for women appear in parenthesis where they differ from those for men.
Long-term: Around 2060 based on all legislated reforms up to mid-2015.

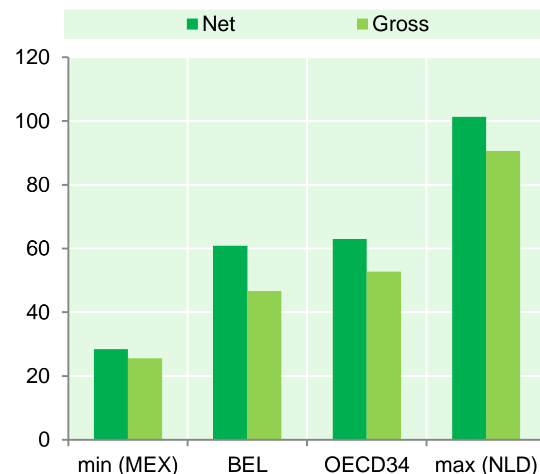
The projected substantial rise in pension expenditure over the long term is one of the highest in Europe. It is mainly driven by population ageing and the retirement of the baby boomers. The very low employment rate of older workers (only 23% for those aged 60-64 in 2013 compared to 45% in the OECD on average) and the low average effective age of labour market exit are also threatening the financial sustainability of the system. In the last five years, various measures were implemented to address these issues. According to the 2011 reform, the early retirement age will increase to 62 in 2016 conditional on having a career of 40 years (instead of 60.5 years conditional on 38 years in 2013). The tax rates on

occupational pensions are set at higher levels for individuals retiring early: 20% and 18% (rather than 16.5% previously) for retirement at age 60 and 62, respectively. Exit possibility through unemployment has been tightened, and bonus for later retirement increased though remaining very low. The government recently announced other measures (and some have been legislated) such as the gradual increase in the pensionable age to 67 by 2030, a link to life expectancy thereafter, a one-year increase in the early-retirement age, the further tightening of the unemployment-exit pathway, the abolition of lower retirement ages in some special regimes (such as for the policemen), the introduction of a point schemes aligning public and private pension schemes and some mechanisms to develop further the private pension pillar.

Effective average age of labour market exit



Long-term pension replacement rates



Source: OECD database on effective ages of labour market exit (2013), OECD pension models

Efforts should focus on increasing employment of older workers. Even though the legal retirement age is 65, the key parameter for pension computation is the contribution period. In this setting, a link between life expectancy and retirement age may not be effective to extend working lives. The 45 year-period required to get a full pension is already relatively long in comparison with other OECD countries and few people fulfil it (the average length was 42 and 34 years for men and women respectively in 2012). Several mechanisms allow people to leave the labour market early (early pensions, late-career unemployment with full pension rights, long career schemes, special regimes, etc.). Moreover there are no actuarial reductions in pension benefits when retiring before the age of 65 and incentives to work longer are poor (for example at most 45 years are taken into account to determine the pension). More generally a clear link between labour market participation and pension benefits is missing. The sustainability of the system would be improved by: the tightening of early-exit pathways, enhanced activation policies, additional training and up-skilling measures, greater flexibility in the workplace and better incentives to stay longer in the labour market.

Measures directed to make the system more equitable and less opaque are also needed. Important savings may be obtained by the elimination of special regimes and the gradual alignment of the pension treatment of public and private-sector workers, which would also increase labour mobility and improve efficiency. Improving reporting and thereby knowledge about one's own pension entitlements will also help individuals to make better working and saving choices.

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