Belgium

Belgium: Pension system in 2016

The pension system has two components: an earnings-related public scheme with a minimum pension and a means-tested safety net.

Key indicators: Belgium

		Belgium	OECD
Average worker earnings (AW)	EUR	46 570	34 803
	USD	49 004	36 622
Public pension spending	% of GDP	10.2	8.2
Life expectancy	at birth	81.4	80.9
	at age 65	20.0	19.7
Population over age 65	% of working- age population	30.6	27.9

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Qualifying conditions

Normal pensionable age is 65 for all. A full pension benefit requires 45 years of contributions. Early retirement is possible from age 61 given 39 years of contributions or at age 60 with 40 years of contributions.

Benefit calculation

Earnings-related

The rate for the calculation of the pension for a single pensioner is 60% and for those with a dependent spouse, 75% (if the sum of the individual pension rights at 60% for both spouses is less advantageous). The estimated annual accrual rate is therefore 60%/45 = 1.33%. The earnings measure is average lifetime pay (under the modelling simplifying assumptions). Earlier years' earnings are revalued in line with prices and at the same time a revaluation coefficient is applied in order to revalue elderly wages in line with the increase of living standards (different coefficient for each year). The application of these revaluations of elderly wages used for the calculation of the retirement pension is not modelled.

The full pension is paid provided the qualifying conditions above are met. For shorter contribution histories, the pension will be provided, but calculated on the lower number of career years.

For the calculation, a ceiling to yearly pensionable earnings is applied. This ceiling is EUR 54 658.70 in 2016.

Pensions in payment are uprated in line with a consumer price index (so-called "Health index" that excludes some goods). There have also been discretionary real increases (called "adaptations to well-being"). However, these increments have recently been more targeted to the lowest or the longest-running pensions. Since 2008, legislation obliges the government to make decisions on uprating of pensions every two years, based on advice from the social partners.

There are additional payments ("holiday" and "supplementary" allowances), payable once a year. These are equal to the value of the monthly pension up to a ceiling of EUR 708.04 for a single person and EUR 885.07 for pensioners with a dependent spouse (2016).

Minimum

Minimum annual credit

In cases of pensioners with low earnings or part-time work throughout their career, there is a minimum annual credit designed to increase their attributed pension entitlements. Annual earnings of less than EUR 22 916.06 (EUR 23 374.55 from 1 June 2016) are inflated to this level. To qualify for the minimum credits, at least 15 years' insurance is necessary, for an equivalent of at least one-third of a full-time employment (this gives an effective minimum pension for a full-career worker for a single person with a 45 year contribution history raised to this level for each year of the career). The application of this minimum annual credit cannot lead to the attribution of a pension superior to EUR 18 588.05 for a pension at "family pension" rate (1 June 2016 onwards) or EUR 14 870.43 for a pension at "isolated person" rate. If the pension calculation should result in such a pension, the "minimum annual credit" application will not be applied for all eligible career years, until the pension passes under this ceiling.

Minimum earnings-related pension

There is also a minimum earnings-related pension which corresponds to EUR 14 024.74 for pensioners meeting the full contribution condition (45 years) for a single person or EUR 17 525.38 (1 June 2016 onwards) with a dependent spouse. The benefit will be a proportion of this minimum in the case of less-than-full careers, if the beneficiary has at least two-thirds of the full number of years. Otherwise, the benefit value will simply be obtained through the application of the benefit formula (there will be no "levelling up" of the benefit in line with the minimum pensions).

The minimum pension is indexed to prices, excluding certain goods. Benefits are increased by 2% each time cumulative inflation exceeds a certain threshold (2%) since the last adjustment.

Pensioners will receive the higher of the minimum pension described here and the pension calculated (eventually with application of the "minimum annual credit" for those career years fulfilling the conditions).

Safety-net income: targeted

In the case of elderly people, who have no pension rights based on a professional activity or whose pension rights are very low, a means-tested safety-net income can be attributed. This so-called GRAPA (Garantie de revenu aux personnes âgées) is a part of the social assistance measures, which are complementary to the social security provisions (e.g. legal pension for workers of the private sector as modelled).

The means-tested safety-net income for the elderly is EUR 1 052.58 a month for a pensioner living alone and EUR 701.72 (1 June 2016 onwards) a month for an older person living with others. Indexation is again to prices excluding certain goods. For the means test, "normal" pension revenue is taken into account for only 90% of its real amount.

Age limit is 65, without possibility for early take up.

Voluntary private pensions

A scheme of sectoral complementary pensions was introduced in 2003 to further extend the second pillar pension system. The contribution rates are fixed through (sectoral) collective labour agreements, and can vary between economic sectors (the modelled contribution rate is 4.25%).

Variant careers

Early retirement

Since 1 January 2014, early retirement is possible from age 61, subject to 39 years contributions. This gradually increased to age 62 with 40 years contribution by 1 January 2016 (see table below). For very long careers (more than 40 years), early retirement will still be possible before the 'normal' early retirement age. There is no actuarial reduction in the pension calculation in the scheme of wage-earners. The pension however, can be incomplete, due to the possible incompleteness of the career (less than 45 years). There is an earnings test limiting the opportunity to combine an early retirement pension with work. This is stricter than the earnings test applied after normal pension age.

Starting date	Early retirement age	Career length	Exceptions
1 January 2013	60 ½	38	Age 60 and 40 years career
1 January 2014	61	39	Age 60 and 40 years career
1 January 2015	61 ½	40	Age 60 and 41 years career
1 January 2016	62	40	Age 60 and 42 years career or age 61 and 41 years career
1 January 2017	62 ½	41	Age 60 and 43 years career Age 61 and 42 years career
1 January 2018	63	41	Age 60 and 43 years career Age 61 and 42 years career
1 January 2019	63	42	Age 60 and 44 years career Age 61 and 43 years career

Late retirement

It is possible to defer the pension after the normal retirement age. For people who continue working after normal retirement age, this can permit to plug career gaps to obtain a full(er) pension or can improve the pension amount, since only the last 45 years are used in the calculation of the pension benefit.

Otherwise, it is possible to combine pensions and earnings within limits. For retirees aged 65+ or with a working career of at least 45 years (activity level of at least 1/3 FTE per year), this combination possibility is unlimited. In the case of combining a retirement pension with earnings, there is a limitation applied for the earnings for retirees aged below 65 and with less than 45 years of career, annual earnings under EUR 22 521 (single) or EUR 27 394 (with a dependent child), the pensions will not be reduced. Above this ceiling, the pension will be reduced by 35% if earnings are below 200% of this ceiling and the pension will be fully suspended if the earnings are more than 200% of the ceiling.

Childcare

A maximum of three years in total caring for children may count as gainful employment, if the person benefits from the so-called "tijdskrediet". Tijdskrediet is a right for all employees in the private sector and they could benefit from a full suspension of labour activities or of a half-time reduction of labour time if they had worked more than three-quarters of full time for at least 12 months preceding the start of "tijdskrediet". They also need to have worked for the same employer for more than a year, during the 15 months before the application for the start of the "tijdskrediet" period. When a person withdraws totally from the labour market, no compensation is made. These years count in the numerator of the benefit formula. The value for earnings in the formula is the last earnings before the labour-market absence.

Unemployment

Periods on unemployment insurance benefits are credited under the pension system. The unemployment years count in the numerator of the benefit formula, and until 2012 earnings prior to the period of unemployment are used in the calculation base for the entire unemployment period.

For those who became involuntarily unemployed since 1 November 2012 the crediting of unemployment periods has changed for the unemployed aged less than 55. For them, the crediting of the unemployment period starting with the so called '3rd period' (from the moment the unemployment benefit will be calculated as a lump sum/day and no longer based on a percentage of the lost wage – starting after max. 48 months of unemployment) will be done on the basis of the 'minimum annual credit' instead of the lost wage. For those unemployed aged 55 or more on 1 November 2012 and entering the '3rd period' of unemployment, further crediting will take place on the basis of the lost wage. For those who became unemployed after their 50th birthday, the crediting of the '3rd period' after they reached the age of 55 will also be further credited on the basis of the lost wage.

Since 2012, for those unemployed in the system of the 'unemployment benefit with supplement of the employer', the crediting of the unemployment period after their 59th birthday will be on the basis of the lost wage. The periods falling before the 59th birthday will be credited at the 'minimum annual credit' (except for those already in the system before 28 November 2012 – crediting on the basis of the lost wage).

There is no limit to the number of years credited, but the total career length after crediting cannot be longer than 45 years.

Personal income tax and social security contributions

Taxation of pensioners

There are no special credits or allowances for pensioners.

Taxation of pension income

Pensions are taxable. Pension income, however, gives entitlement to a maximum tax reduction of EUR 2 024.12 for each person. The tax reduction is subject to restrictions. The first restriction is based on the ratio of pension income to aggregate taxable income (ATI). A single person with a pension of EUR 5 000 and net taxable income of EUR 10 000, will receive only half of the basic amount. The second restriction is related to total ATI. If ATI is less than EUR 22 430 the whole reduction applies. Above EUR 44 860, only one-third of the reduction is granted. Between these two thresholds, the reduction is one-third of the full value plus two-thirds of the value multiplied by EUR 44 860 — ATI divided by EUR 22 430. In addition, if the taxable income is consisting of pension income only and it is less than EUR 15 518.54 then income tax is reduced to zero. Restrictions apply for each spouse on a separate basis: this means, for example, that the restriction based on the ATI is computed according to the ATI of each spouse. The tax reduction and the thresholds are adjusted annually in line with the consumer price index.

Social security contributions paid by pensioners

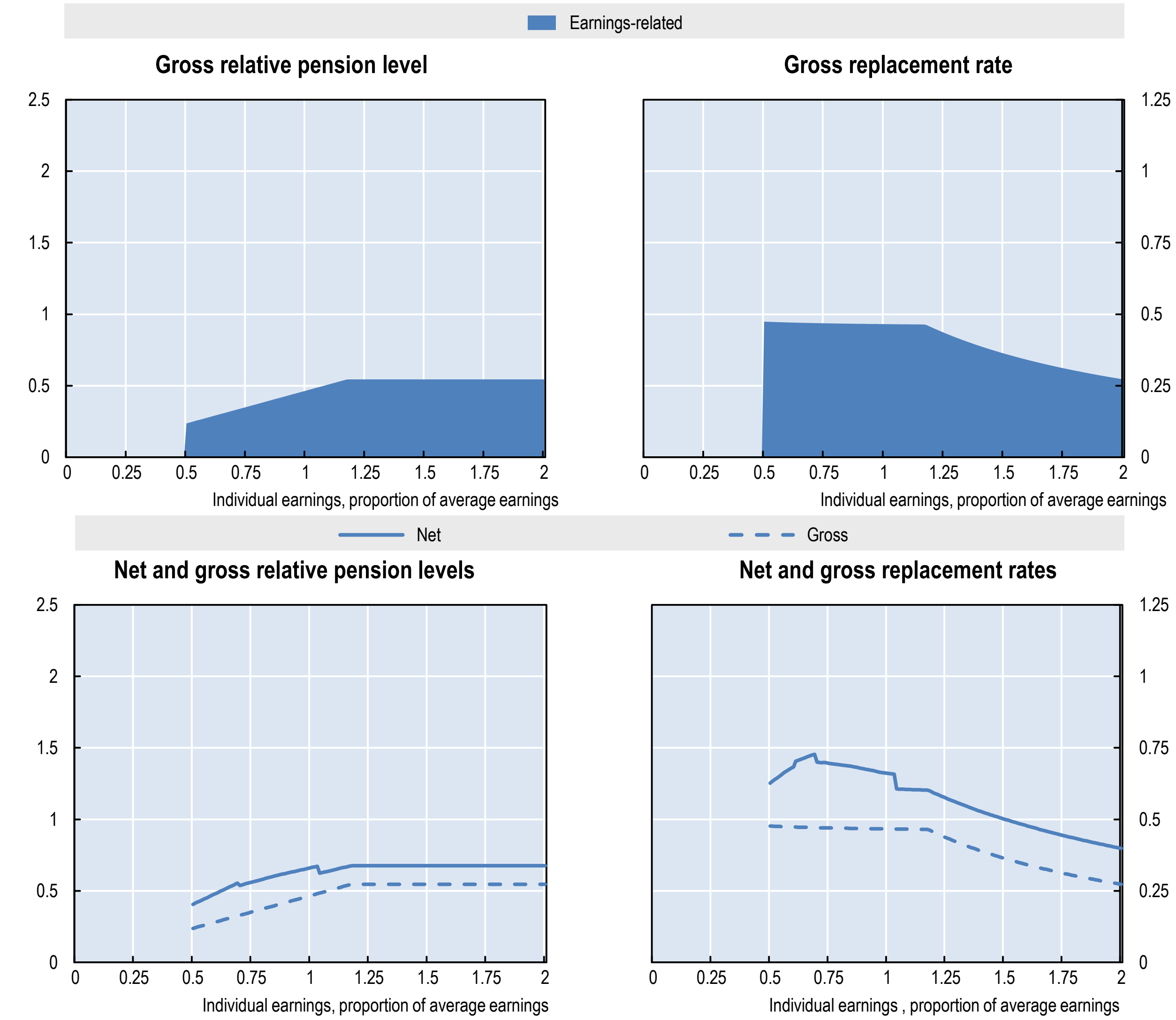
Pensioners with a pension above a minimum threshold pay a social security contribution of 3.55% for health and disability insurance. The minimum threshold is EUR 1 442.08 for a single pensioner without dependents. The effect of the contribution cannot lead to a pension payment inferior to this monthly amount (EUR 1 709.07 respectively per month for pensioners with dependents).

There are also 'solidarity' contributions that are levied on all pensions (public, occupational and private) which exceed EUR 2 266.68 per month for single pensioners and EUR 2 620.56 for pensioners with a dependent spouse. This contribution ranges between 0.5% and 2% of the gross pension.

The effect of the contribution cannot lead to a pension payment inferior to this monthly amount.

The holiday allowance for pensioners and the supplementary allowance are taxed as pensions, but are not subject to the so called “solidarity contribution” and equally not to the sickness insurance contribution.

Pension modelling results: Belgium in 2061 retirement at age 65



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	23.8	35.2	46.7	54.6	54.6	54.6
(% average gross earnings)						
Net relative pension level	40.6	56.1	66.1	67.6	67.6	67.6
(% net average earnings)						
Gross replacement rate	47.7	47.0	46.7	36.4	27.3	18.2
(% individual gross earnings)						
Net replacement rate	62.6	69.6	66.1	50.1	39.9	28.3
(% individual net earnings)						
Gross pension wealth	8.9	8.8	8.7	6.8	5.1	3.4
(multiple of individual gross earnings)	*9.7*	*9.6*	*9.5*	*7.4*	*5.6*	*3.7*
Net pension wealth	11.7	13.0	12.4	9.4	7.5	5.3
(multiple of individual net earnings)	*12.8*	*14.2*	*13.5*	*10.2*	*8.1*	*5.8*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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