

# Belgium

## Belgium: Pension system in 2018

The Belgian pension system consists of various pension schemes. There is an earnings-related public pension scheme. There is also a means-tested safety net as well as purely individual pension products.

## Key indicators: Belgium

		Belgium	OECD
Average worker earnings (AW)	EUR	9.2	4.5
	USD	84 510	41 584
Public pension spending	% of GDP	2.1	8.0
Life expectancy	at birth	82.8	80.7
	at age 65	20.4	19.7
Population over age 65	% of working- age population	26.6	31.2

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## Qualifying conditions

The legal pensionable age of women and men in 2018 is 65 (increasing to 66 in 2025 and further to 67 in 2030). A full public pension benefit requires 45 career years. Early retirement is possible from age 63 given 41 career years, age 61 given 42 career years or age 60 given 43 career years.

## Benefit calculation

Public pensions for employees are calculated based on career earnings. However, if certain conditions are met, minimum regulations ensure that either the pension is (partly) calculated using a minimum wage, if this wage is higher than the earned wage, or that a minimum pension is granted if this pension is higher than the earnings-related pension

## Earnings-related

The pension calculation rate is 60% unless the pensioner has a dependent spouse, in which case it is 75% (this rate is granted if the sum of the individual pension rights at 60% for both spouses is less advantageous). The estimated annual accrual rate is therefore either  $60\%/45 = 1.33\%$  or  $75\%/45 = 1.67\%$ . The earnings measure is average lifetime pay. Earlier years' earnings are revalued in line with prices.

The full pension is paid provided someone has 45 career years. Those with shorter careers will also receive a pension but one that is calculated based on the lower number of career years.

For the calculation, a ceiling to yearly earnings is applied. This ceiling is EUR 55 657 in 2018.

## Minimum regulations

The earnings-related pension can be modified by minimum regulations in two ways:

1. A pensioner with at least one-third of a full career can potentially benefit from the minimum right per career year: if the wage generating pension rights in a certain year is lower than a predetermined minimum amount, then the pension is calculated based on the minimum amount instead of on the actual earned wage (between January and August 2018 this minimum amount was EUR 24 247, from September onwards it is EUR 24 731). To ensure that an individual with too high a pension does not benefit from the minimum right, a maximum pension ceiling also exists (between January and August 2018 this ceiling was EUR 15 452 (for pensions calculated at 60%), EUR 19 315 (if calculated at 75%); from September onwards, these amounts

are EUR 15 733 and EUR 19 667). If the total pension surpasses this ceiling, no additional minimum rights are granted.

2. A pensioner with at least two-thirds of a full career has a right to a minimum retirement pension if this minimum pension is higher than the earnings-related pension. For individuals with a complete career, the minimum pension was EUR 15 650 between January and August 2018, EUR 14 943 from September 2018 onwards if the earnings-related pension was calculated at 60%, 25% higher if the earnings-related pension is calculated at 75%. Individuals with incomplete careers (e.g. 30 years) are only granted a fraction, proportionate to the duration of the career, of a lower minimum pension amount (e.g. 30/45th of the lower minimum pension amount). Between January and August, this lower amount was EUR 14 548, from September 2018 onwards it is EUR 14 839. If the earnings-related pension was calculated at 75%, the previous amounts have to be multiplied by 25%.

### ***Holiday payments***

Holiday payments are in general granted from the second year of retirement onwards. The yearly holiday payment is calculated at 108.6% of the monthly pension and equals a maximum of EUR 770 (if the pension is calculated at 60%) or EUR 962 (if calculated at 75%).

### ***Safety-net income: targeted***

For individuals sharing a household, the means-tested safety-net, GRAPA (Garantie de revenu aux personnes âgées), was EUR 8 666 between January and August 2018 and is EUR 8 947 ever since. For individuals living alone these amounts are EUR 12 999 and EUR 13 421. Note that for the means test that is at the basis of this social assistance benefit, only 90% of the pension income amount is considered. To give an example, someone living alone and receiving a pension of EUR 13 100 in September 2018, will receive a GRAPA of EUR 1 631, i.e.  $13\,421 - (13\,100 - 0.1 \times 13\,100)$ .

The GRAPA cannot be taken up before the age of 65.

Both pension income and the GRAPA are automatically adjusted in line with a consumer price index (so-called “Health index” that excludes some goods). Every two years, discretionary real increases are also decided upon (called “adaptations to well-being”) to ensure that the income of the elderly does not lag behind the income of the population of active age. Quite often these increases are targeted towards the GRAPA, minimum pensions or the longest-running pensions.

### ***Voluntary private pensions***

Both occupational and purely private pensions exist.

The decision to set up an occupational pension plan, the access conditions and the benefit formula are decided upon by the organizer (i.e. the employer or sector). In that sense, occupational pensions are voluntary. However, for an individual belonging to a plan, participation is mandatory. Because it is up to the organizer to decide on the exact content of the pension plan, a plethora of pension formula exist. For the modelling exercise, a contribution rate of 4.25% is assumed.

Apart from occupational pensions, also fiscally stimulated, purely individual pension products exist. Pension build-up using such products is not modelled.

## **Variant careers**

### ***Early retirement***

Early retirement is possible from age 63, subject to 41 career years. There is no actuarial reduction in pension calculation in case of early retirement. The pension however will be incomplete in case of less than 45 career years.

Pensioners with less than 45 career years and younger than 65 are subject to an earnings-test limiting the opportunity to combine an early retirement pension with work.

### ***Late retirement***

It is possible to defer the pension after the legal retirement age in order to further build up pension rights. It is also possible to combine a pension with income from work. In that case no further pension rights are accrued.

### ***Assimilated periods***

In Belgium, an elaborate system of pension credits exists, the so-named assimilated periods, i.e. periods that one does not work but during which pension rights are nonetheless built up. Unless otherwise mentioned, the pension that is built up during an assimilated period is based on a hypothetical wage that is similar to the wage earned in the previous period of work. Two examples of assimilated periods are periods of childcare and unemployment periods.

### ***Childcare***

To take care of children two important assimilated periods exist. To take care of a child below the age of twelve, each parent has a right to maximum 4 fulltime equivalent months of parental leave during which pension rights are granted. Furthermore, within the so-called ‘tjidskrediet’-scheme, a maximum of four years and three months of assimilation can be granted to take care of a child below the age of six. In order to have access to both schemes, certain access conditions have to be met (e.g. to have access to parental leave one had to be employed with the same employer during 12 of the last 15 months). These access conditions are more strict for the ‘tjidskrediet’-scheme than for the parental leave scheme.

### ***Unemployment***

Until the end of 2012, periods of unemployment were completely assimilated. Since then the assimilation of these periods is in certain conditions less advantageous. Thus, some exceptions notwithstanding, the so-called third period of unemployment (i.e. after 4 years), is no longer assimilated using the previous wage but using the minimum right per career year. For new pensioners as from 2019, also the second period of unemployment (i.e. after 1 year) since 2017 is assimilated using the minimum right per career year. Note that there is no limit to the number of years maximally credited.

## 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 2 066.87 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 22 910 the whole reduction applies. Above EUR 45 810, 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 45 810 — ATI divided by EUR 22 900. In addition, if the taxable income is consisting of pension income only and it is less than EUR 15 568.12 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.

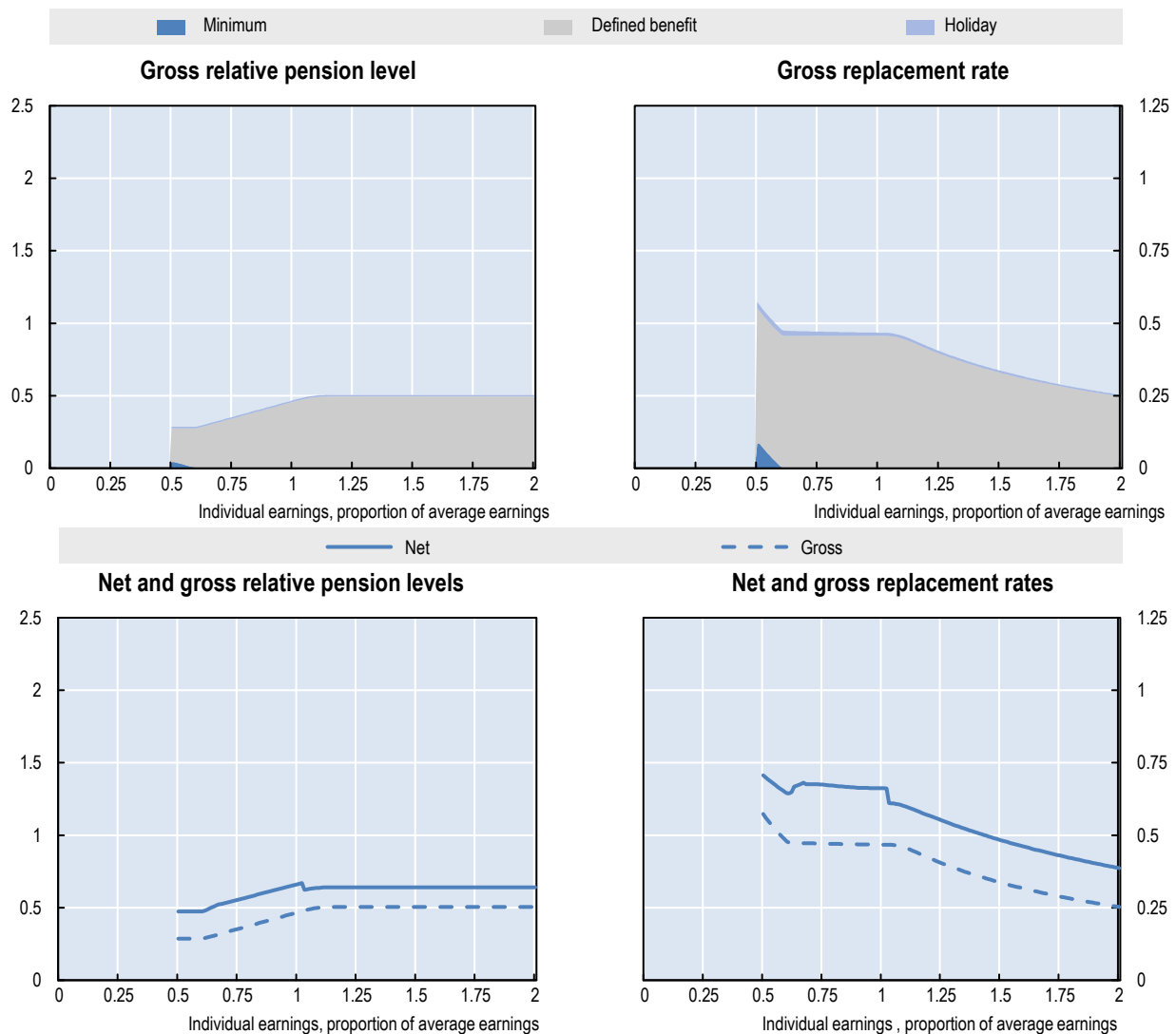
### *Social security contributions paid by pensioners*

Pensioners with a pension above a minimum threshold pay a social security contribution of 3.55% for health and disability insurance. Since September 2018 the minimum threshold is EUR 1 500 for a pensioner without dependents and EUR 1 709 per month for pensioners with dependents (before that date, these amounts were EUR 1 471 and EUR 1 743 per month). The effect of the contribution cannot lead to a pension payment inferior to this monthly amount

There are also ‘solidarity’ contributions that are levied on all pensions, except the purely private ones, which exceed EUR 2 358 per month for pensioners without a dependent spouse (since September 2018, EUR 2 312 before) and EUR 2 727 for pensioners with a dependent spouse (since September 2018, EUR 2 673 before). 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.

Holiday payments are taxed as pensions but are not subject to the ‘solidarity contribution’ and to the above-mentioned 3.55% contribution.

## Pension modelling results: Belgium in 2063 retirement at age 67



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	28.7	35.3	46.8	50.5	50.5	50.5
Net relative pension level (% net average earnings)	47.4	55.5	66.2	64.1	64.1	64.1
Gross replacement rate (% individual gross earnings)	57.3	47.1	46.8	33.7	25.3	16.8
Net replacement rate (% individual net earnings)	70.7	67.4	66.2	48.3	38.7	27.5
Gross pension wealth (multiple of individual gross earnings)	10.1	8.3	8.2	5.9	4.4	3.0
Net pension wealth (multiple of individual net earnings)	12.4	11.9	11.6	8.5	6.8	4.8

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 22 in 2018. Tax system latest available: 2018.

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