

Belgium

Belgium: Pension system in 2020

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	47 720	34 301
	USD	54 506	39 178
Public pension spending	% of GDP	10.5	7.7
Life expectancy	at birth	81.4	80.6
	at age 65	20.0	19.7
Population over age 65	% of working- age population	33.1	30.4

Qualifying conditions

The legal pensionable age of women and men in 2020 is 65 (increasing to 66 in 2025 and further to 67 in 2030). A full public pension benefit requires 45 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. For 2019 wages, this ceiling was EUR 59 615.88.

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 February 2020 this minimum amount was EUR 25 328.32, from March onwards it is EUR 25 833.78). 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 February 2020 this ceiling was EUR 16 112.74 (for pensions calculated at 60%), EUR 20 140.92 (if calculated at 75%); from March onwards, these amounts are EUR 16 434.94 and EUR 20 543.69). 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. This minimum pension was EUR between January and February 2020, EUR 15 500 from March 2020 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 the minimum pension amount (e.g. 30/45th of the minimum pension amount).

Holiday payments

Holiday payments are in general granted from the second year of retirement onwards. The yearly holiday payment is calculated at 129.7% of the monthly pension and equals a maximum of EUR 864.12 (if the pension is calculated at 60%) or EUR 1 080.16 (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 9054.58 between January and February 2020 and is EUR 9235.32 ever since. For individuals living alone these amounts are EUR 13 581.87 and EUR 13 852.92. 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 March 2020, will receive a GRAPA of EUR 2 062.92, i.e. $13\,852.92 - (13\,100 - 0.1 \times 13\,100)$.

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. Hence for the modelling exercise we follow the following procedure: among those with a second pillar pension we select the individuals with wages that correspond to the three type cases. Next, for each of these three wages we select the median contribution rate. The resulting contribution rates are 1.3% for the low earner, 3.3% for the average earner and 6.1% for the high earner.

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 at the age of 60 after 44 career years, at the age of 61 after 43 careers years and at the age of 63 after 42 career years. Exceptions apply to those individuals born before 1958 with a minimum number of 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 ‘tijdskrediet’-scheme, a maximum of four years and three months of assimilation can be granted to take care of a child below the age of eight. 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 ‘tijdskrediet’-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.

Self-employed

The self-employed are mandatorily covered by the earnings-related scheme for employees. Social contributions of the self-employed (20.5% of earnings) are lower than those of employees (13.07% of earnings paid by the employee, 25% of earnings paid by the employer). Yet, the pension calculation is the same, while until 2021 the benefits of the self-employed were set at 69% of those of employees.

More precisely, self-employed individuals that perform their activity as a ‘main profession’ with an income below a minimum threshold (in 2019 EUR 13 847.39) pay a social contribution of 20.50% on that minimum threshold. For individuals that have an income above that threshold, the situation is as follows: 20.50% on the income below threshold 1 (EUR 59 795.61 in 2019), 14.16% on the income between that threshold and threshold 2 (EUR 88 119.8 in 2019) and no social contributions on the part of the income above threshold 2.

The rules differ for those that perform their activity as a ‘main profession’ [hoofdberoep] (some 60% of the self-employed) and those that perform their activity as an ‘additional profession’ [bijberoep] (some 35% of the self-employed). For the self-employed (‘additional profession’) who combine their self-employed activity with at least half-time work as an employee, similar social contributions mostly apply as for the former group, but their minimum contribution level is substantially lower. Exceptions notwithstanding, the

self-employed in an additional profession, do not build up any public pension rights as a self-employed worker.

Personal income tax and social security contributions

Taxation of pensioners

There are no special credits or allowances for pensioners.

Taxation of pension income

After withholding social contributions, pensions are subject to income taxation. First pillar pensions are taxed as earnings, be it that tax advantages are granted. The exact implications of these tax advantages differ according to marital status and the division of the pension income between the couple. For individuals without a dependent spouse, no taxes are due if the yearly pension does not exceed 16 170 euros (income year 2020).

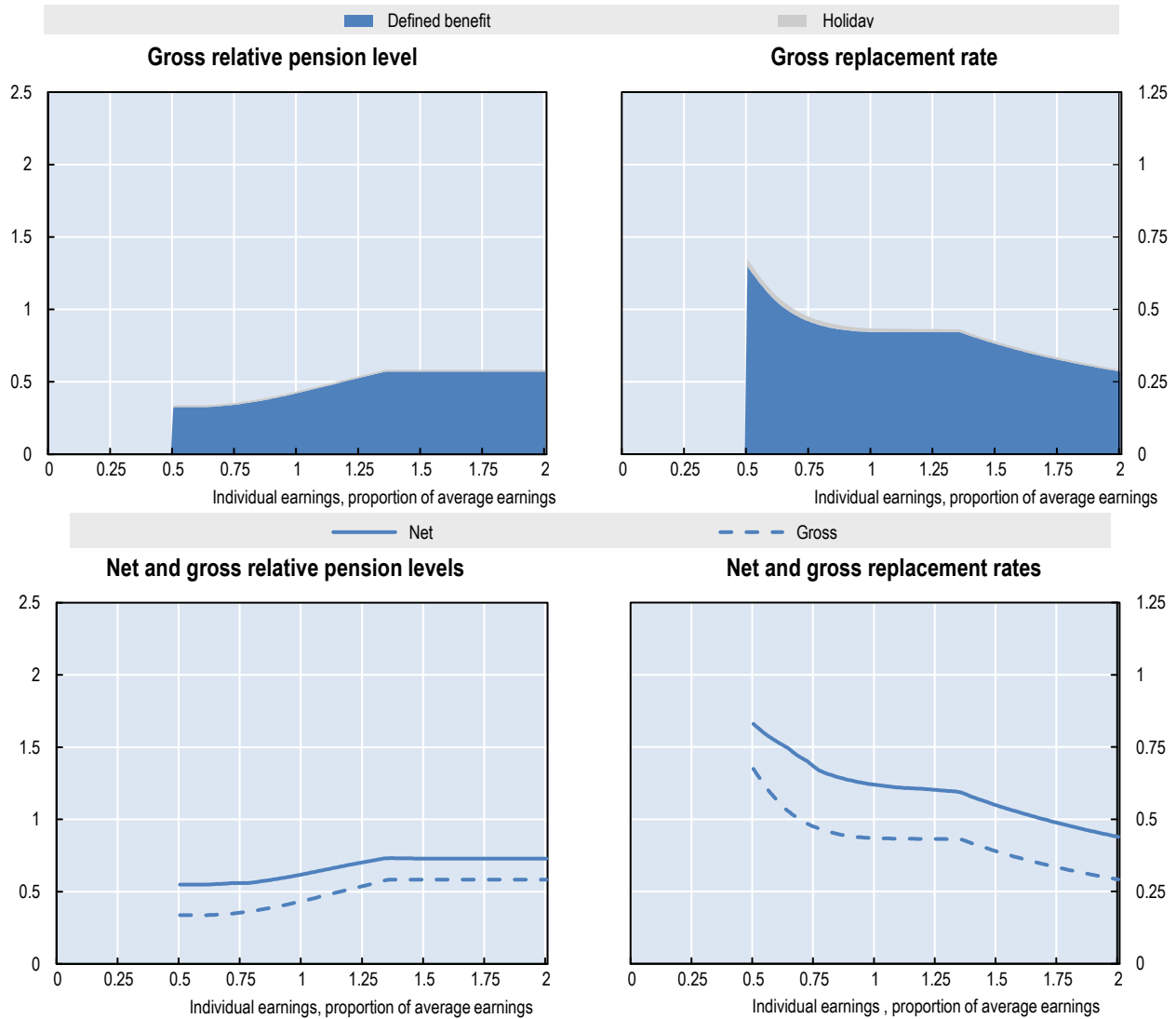
Social security contributions paid by pensioners

Pensioners with a pension above a minimum threshold pay a social security contribution of 3.55% for health and disability insurance. Since March 2020 the minimum threshold is EUR 1 560.96 for a pensioner without dependents and EUR 1 849.96 per month for pensioners with dependents (before that date, these amounts were EUR 1 530.33 and EUR 1 813.64 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 2 646.23 per month for pensioners without a dependent spouse (since March 2020, EUR 2 594.45 before) and EUR 3 059.47 for pensioners with a dependent spouse (since March 2020, EUR 2 999.51 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 2065 retirement at age 67



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	33.7	35.5	43.4	58.3	58.3	58.3
Net relative pension level (% net average earnings)	54.9	55.9	61.9	72.9	72.9	72.6
Gross replacement rate (% individual gross earnings)	67.5	47.4	43.4	38.9	29.2	19.4
Net replacement rate (% individual net earnings)	83.0	68.2	61.9	54.8	43.9	31.3
Gross pension wealth (multiple of individual gross earnings)	11.9	8.3	7.6	6.8	5.1	3.4
Net pension wealth (multiple of individual net earnings)	14.6	12.0	10.9	9.6	7.7	5.5
	16.0	13.1	11.9	10.5	8.5	6.0

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 2020. Tax system latest available: 2020.