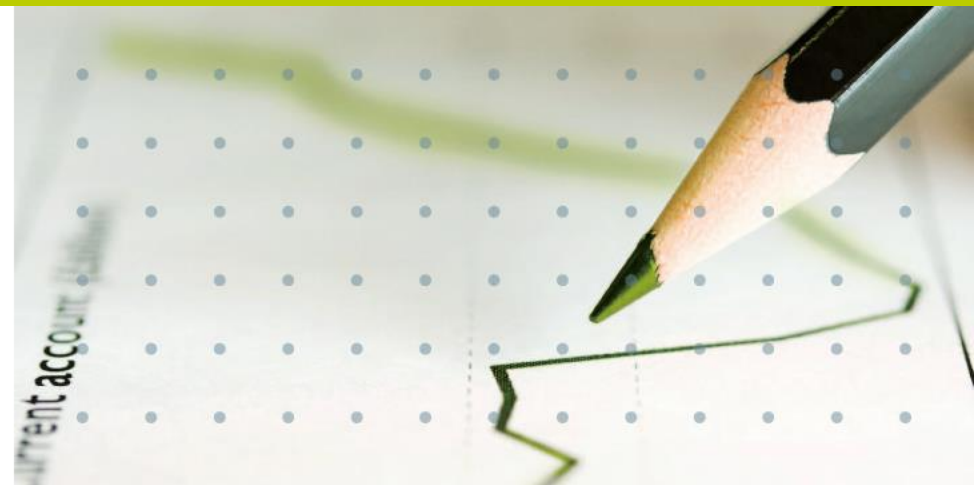


Supplementary pensions in Belgium

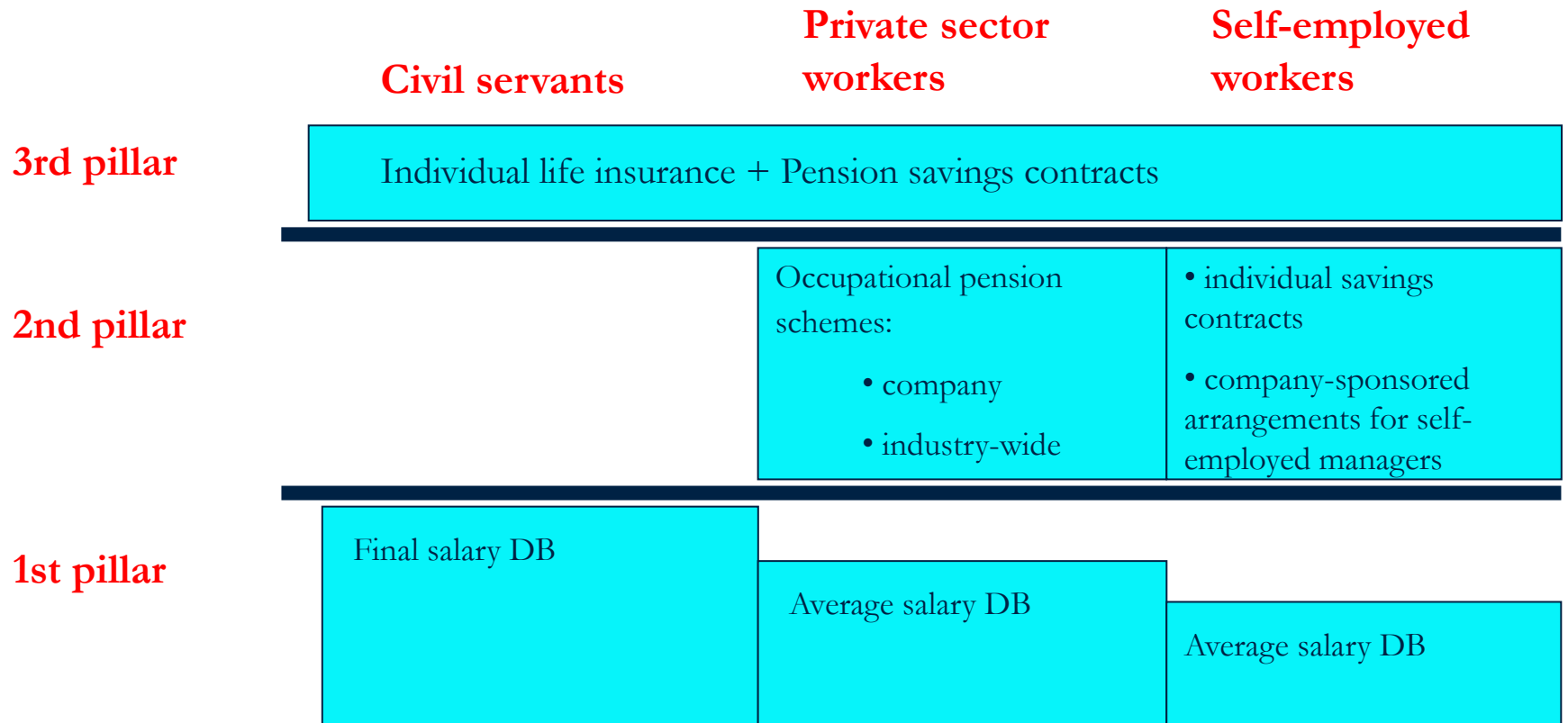
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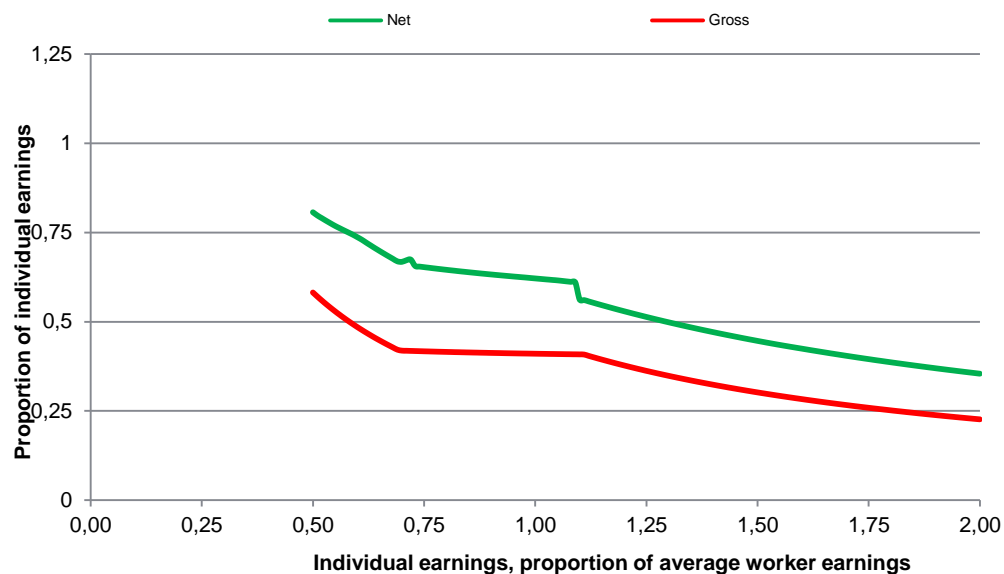
Workshop on the reform of Public Pension Systems
2 February 2015



State pensions (private sector workers)

- DB: $N/45 * 60% * S$
- Earnings related:
 - Average earnings
 - Up to a ceiling (+/- 53.000 € in 2014)

Net and Gross replacement rates

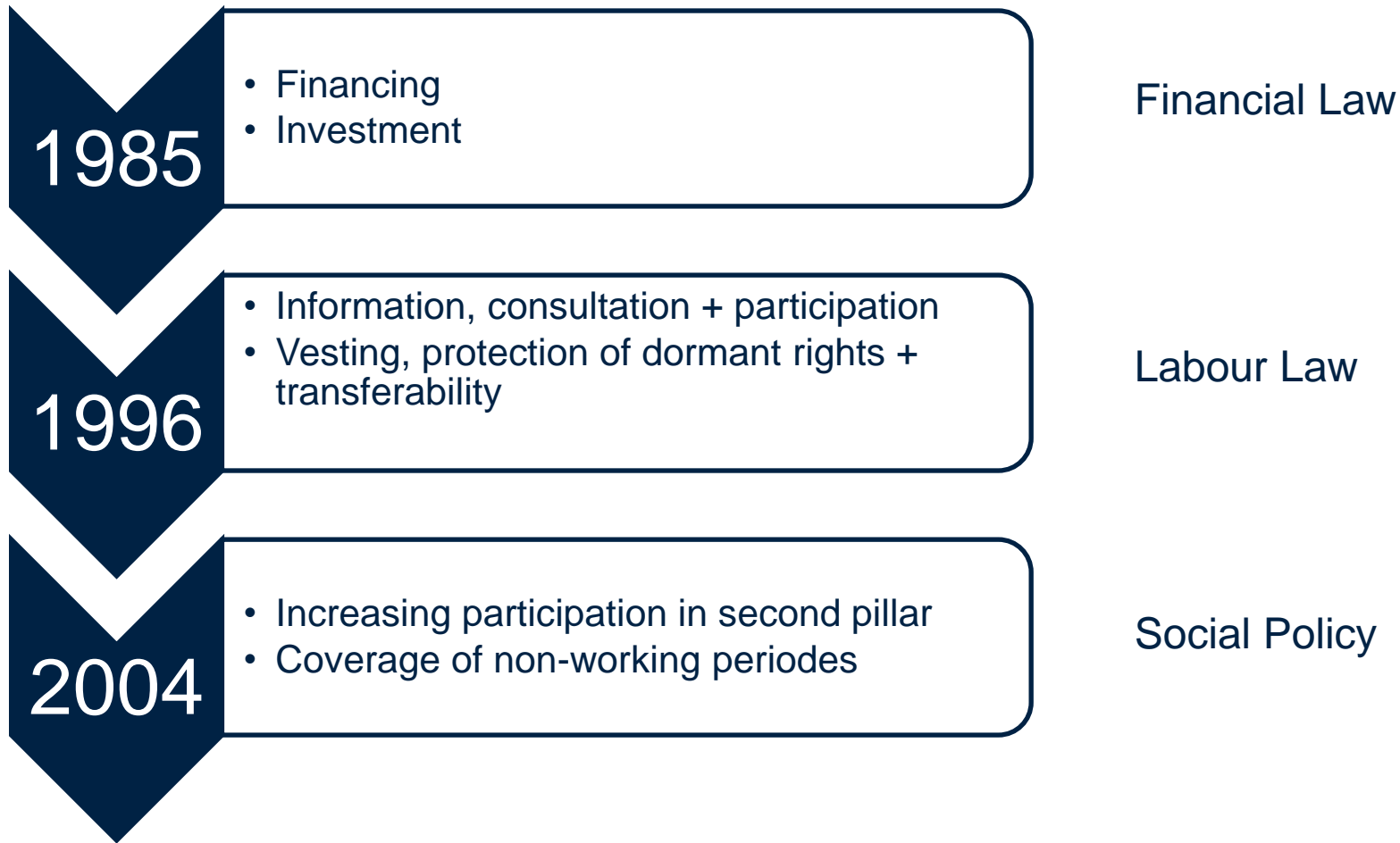


	0,5	1	1,5
Gross	58,2	41,0	30,2
Net	80,7	62,1	44,6

2nd Pillar basics: figures

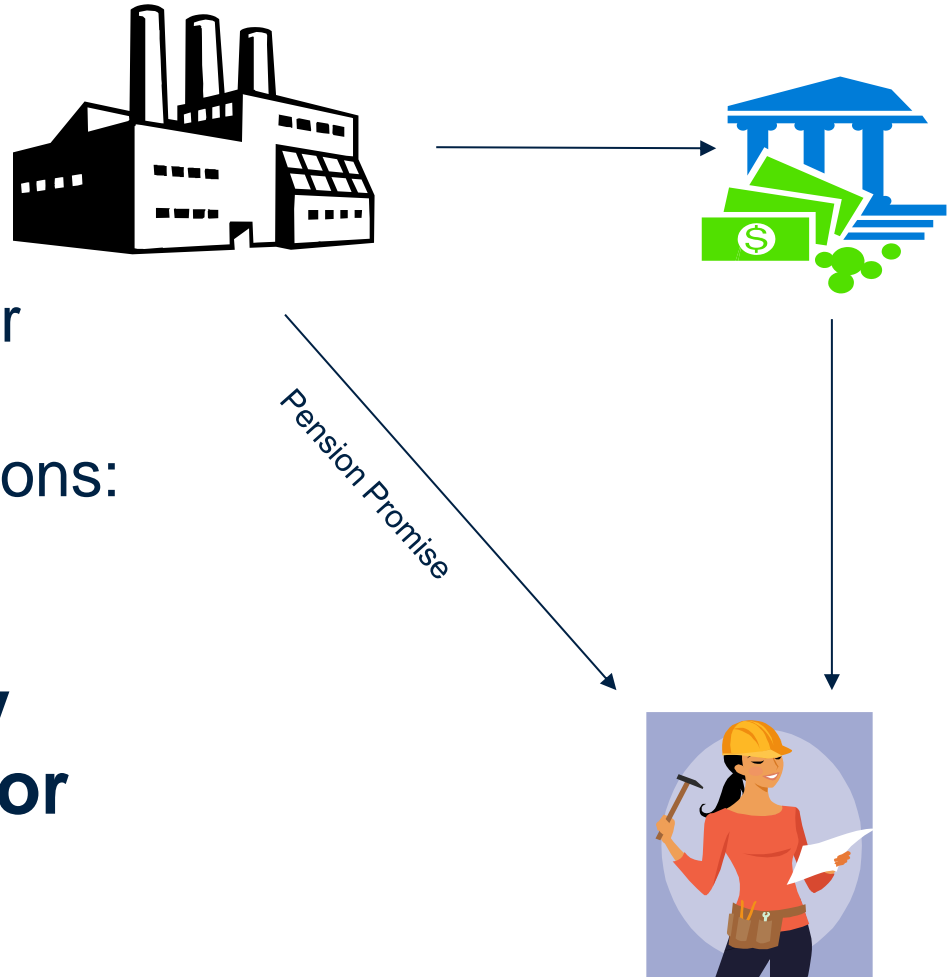
- +/- 110.000 pension schemes
- +/- 50.000 sponsors
- +/- 2.500.000 workers with 2nd pillar
- Contributions: +/- 6,5 billion €
- Assets +/- 70 billion €

2nd pillar basics: regulatory evolution



2nd pillar basics

- **Funding**
 - PAYG not possible
- **External financing**
 - Protection against sponsor bankruptcy
 - 2 types of pension institutions:
 - Insurance companies
 - Pension funds (« IORP »)
- **Ultimate responsibility remains with the sponsor**



2nd pillar basics: scheme types

- **Industry-wide pension schemes**
 - Collective labour agreements within « joint commissions »
 - **Mandatory** for employers and workers
- **Company schemes**
 - **Voluntary** for employers
 - **Compulsory** for new employees
 - Consultation of workers (works council)

2nd pillar basics: membership, vesting, and transferability

- **Membership:**

- Conditions set out in scheme rules (taking into account antidiscrimination principle: gender, age, blue/white collar workers...)
- Scheme rules may require a minimum age but not higher than **25**

- **Vesting:**

- scheme rules may provide for a vesting period of max. **1 year** (membership)

- **Outgoing workers** can choose between:

- leaving dormant pension rights in the scheme
- Transferring transfer value to new scheme

2nd pillar basics

- Shift from DB to DC and hybrid
 - Only 20% of members with DB pension rights
- Take up possible from the age of 60
- Mainly lump sum payments
- Flat rate tax depending on the age at take up (between 10% en 20%)

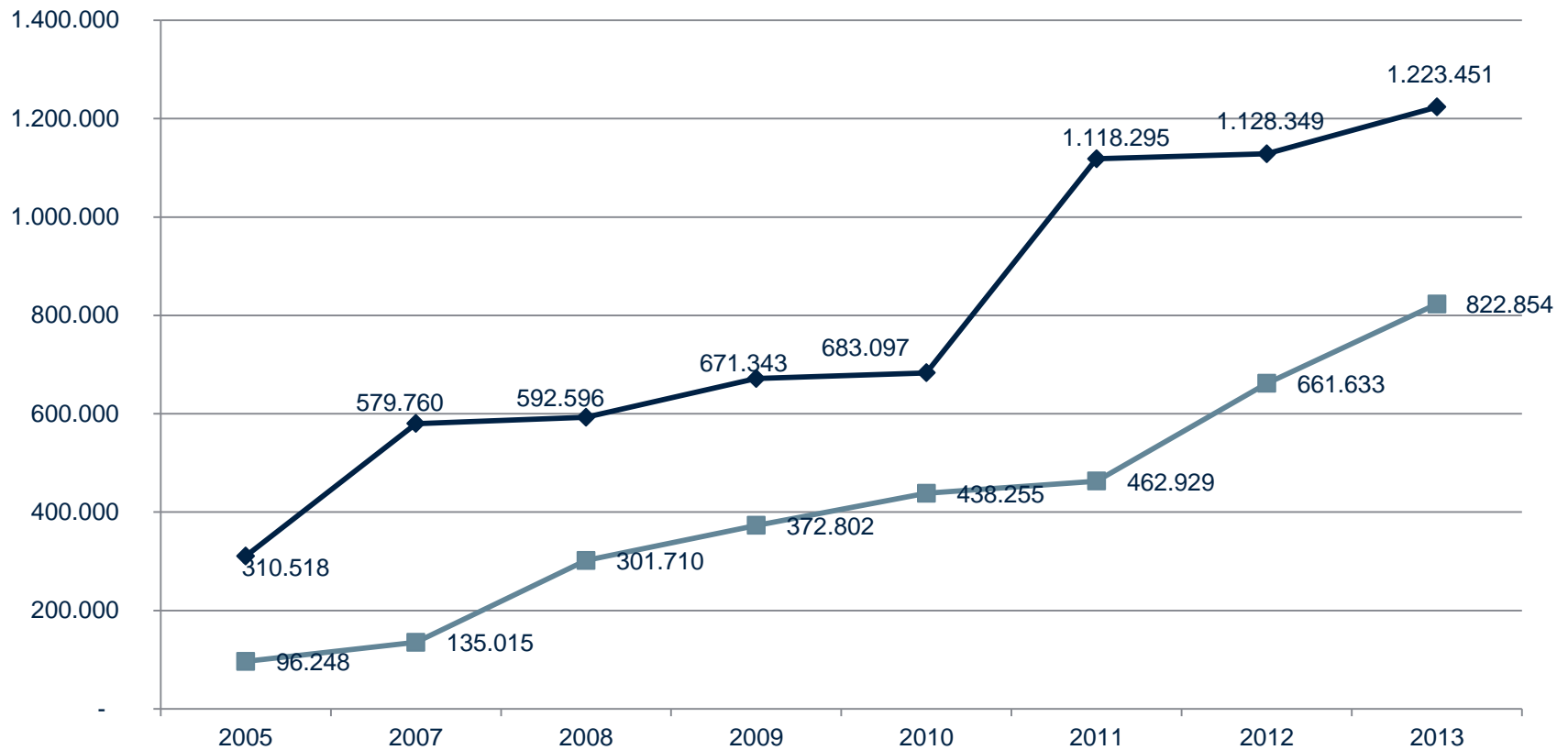
Policy objectives and challenges

1. Increasing participation rates in the 2nd pillar + Ensuring that pension schemes provide substantial income
2. Ensuring that pension income is available when it is most needed
3. Protecting members against investment risk
4. Preventing 2nd pillar schemes from encouraging early retirement
5. Don't lose track of pension rights / good information on pensions

1. Increasing participation

- At the beginning of 21st century
 - Approx. 1/3 of workforce
 - Big difference between:
 - Workers in big enterprises and SME
 - Blue collar and white collar workers
- 2004 supplementary pensions act
 - Promoting industry-wide pension schemes

Evolution membership industry-wide schemes



Increasing participation

- Industry-wide schemes are a success
 - Membership x 3 in less than 10 years
 - overall coverage ratio went up to approx. 75%
- Downside:
 - Contribution levels in industry wide schemes remain low (often +/- 1%)
 - Still about ¼ of workforce remains without any 2nd pillar pension

Increasing participation

- Government agreement 2014: two-track policy
 1. Cross-sectoral target level of 3%;
 - Share of salary-increases to be used for pension purposes;
 - Up to social partners to elaborate a binding mechanism;
 2. Voluntary Pension savings within the second pillar

2. Protection against investment risk

- Background: shift DB → DC
- 2004 Supplementary pensions act
 - Guaranteed minimum return **by employer**
 - Fix rate guarantee of 3,25% on employer contributions in DC-plans
 - Long-term guarantee (when leaving the plan)
- Recent years: interest rates dropped
- 2014 government agreement
 - Closer link between guaranteed return and actual returns;
 - Must be « assurable »

3. Provide income when most needed

- Mostly lump sum payments
 - Preferential fiscal treatment
 - Mentality (*demand*)
 - No annuity market (*supply*)
- 2004 pensions act: encourage annuity-payments
 - Legal right to convert lump sum into annuity
 - Step towards equal fiscal treatment
- 2014 Government agreement
 - Harmonize fiscal treatment
 - Examine how supply side can be stimulated


4. Discourage early retirement

- Before 2004: no specific retirement age
 - Often used to facilitate early retirement
- 2004: ban on take up before 60
- Recent reforms:
 - Early retirement age in 1st pillar went up (60→62)
 - Higher tax rate on 2nd pillar lump sums in case of take up before 65
- 2014 Government agreement:
 - No payment of 2nd pillar before 1st pillar
 - Ban on clauses in pension schemes that encourage early retirement

5. Information on pensions

- Since 1996: Annual Pension Benefit Statement (PBS), by pension institution or sponsor
- Issues:
 - Losing track of pension rights
 - Administrative burden
 - Comparable information?
 - Need for integrated (cross-pillar) information provision

Information on pensions

- Pensions Database 
 - Supervisory purposes
 - Information purposes: all 2nd pillar pension rights together
- Accessible to the public in 2016
- Will replace PBS for dormant pension rights

Questions?

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