



Towards a strong and reliable social contract

Belgium's new structural pension reform

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Main challenges of the Belgian pension system:

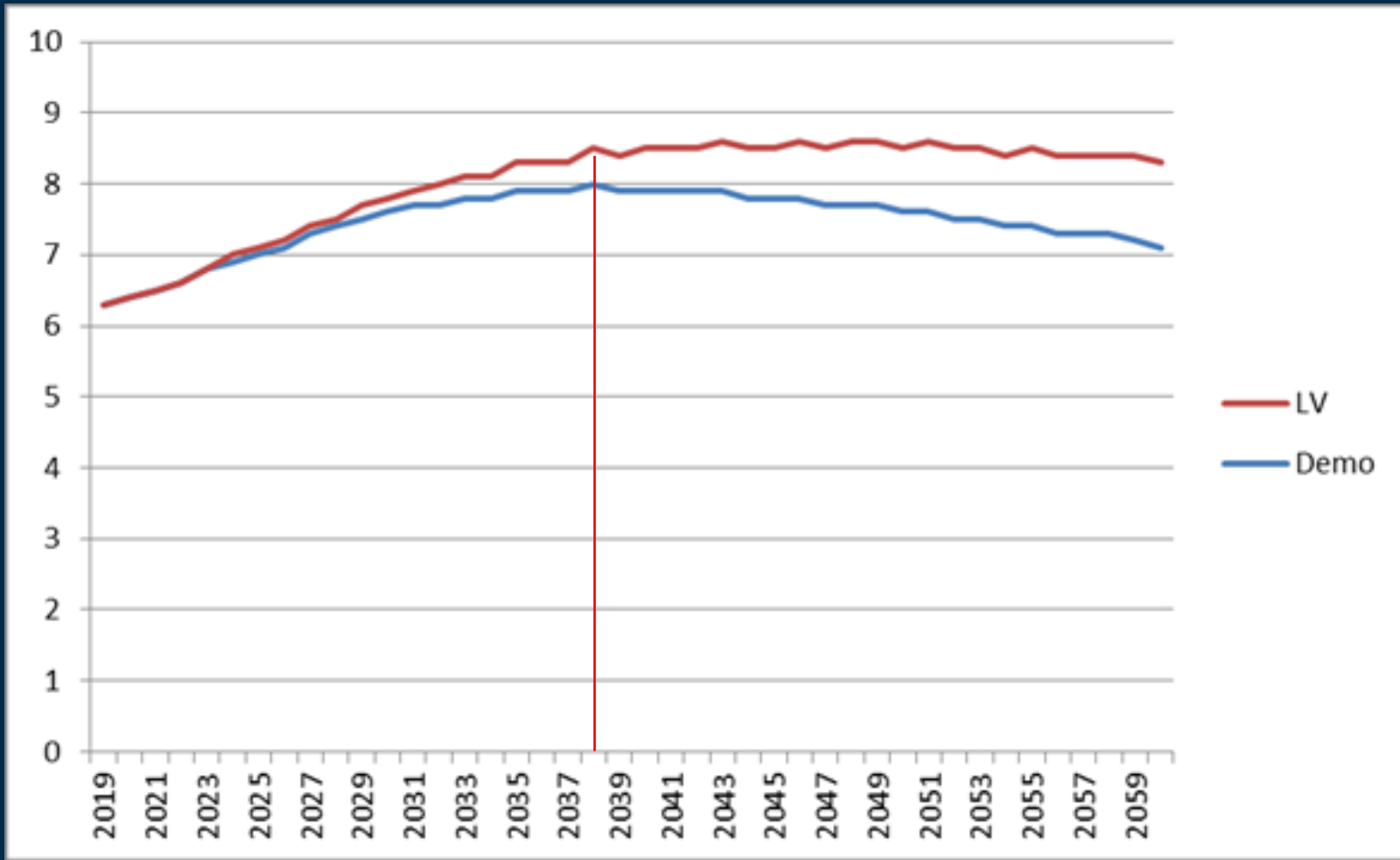
- Since 2010 the post-war babyboom generation is retiring
- Life-expectancy of the general population (80.4 at birth), including the elderly (19.4 at 65) is increasing on a yearly basis.



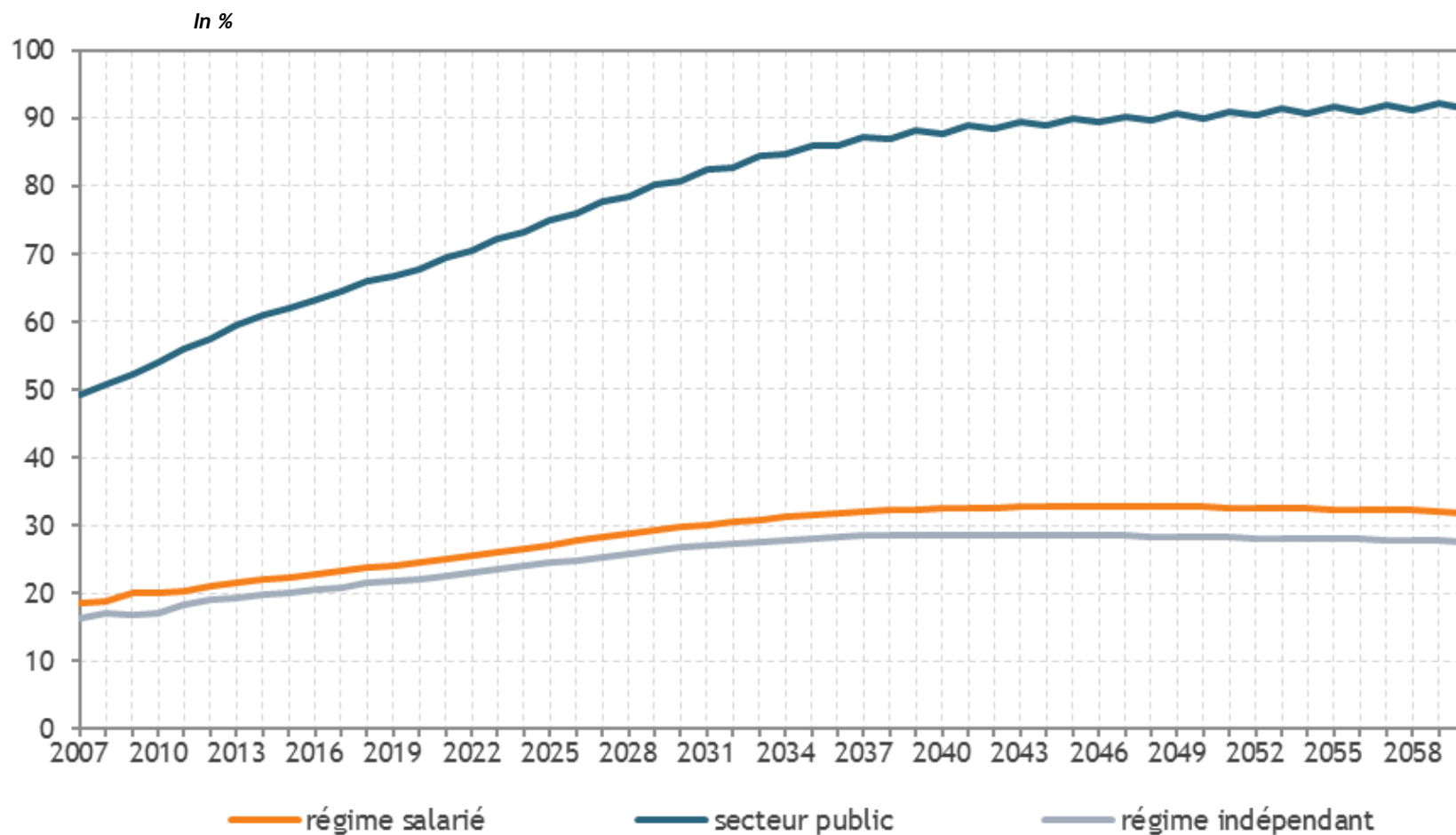
Main challenges of the Belgian pension system:

- Since 2010 the post-war babyboom generation is retiring
= Temporary shock
- Life-expectancy of the general population, including the elderly is increasing every year.
= More likely to be structural

Population ageing increases pension spending



Implicit contribution rate of 3 public pension schemes





Other challenges

- Effective pension age (59.6), much below legal pension age (65)
- Relatively low net replacement rate (63.9) in comparison with OECD average (69.1)
- Public pension spending high (10% of GDP) in comparison with OECD average (7.8%)
- High Public Debt (104.4% GDP) in comparison with OECD average



Social challenges

- Male breadwinner to dual-earner households
- Lifelong marriage -> serial monogamy, cohabitation
- More single person households
- More flexibility, especially less employer stability
- Younger generation increasingly worried about the quality of their pension rights in the future



Limited pension reform in Belgium before 2014

	Coverage	Adequacy	Sustainability	Work Incentives	Administrative	Diversification	Other
Belgium				X			
France	X	X	X	X			X
Germany		X	X	X			
Luxembourg	X		X	X			
Netherlands						X	
Sweden	X	X	X	X	X	X	X



Academic Commission on Pension Reform 2020-2040

- In April 2013 an expert commission on “Pension Reform 2020-2040” was launched on the request of the federal minister for pensions
- Twelve academic experts on pensions and related subjects
- Independent and behind closed doors
- Approximately one year (report presented in June 2014)



Three values

- Individual responsibility
- Solidarity
- Intergenerational equity



Four assessment criteria

- Social performance
- Financial sustainability
- Coherence and transparency of the system
- Public legitimacy of the system

New security through reform



- Pension system is not sustainable if not adapted , is no longer adjusted to evolution in society and social quality remains an issue.
- Parametric change is no longer sufficient.
- A social insurance system represents a social contract that should give all citizens a “hold”
- Therefore the commission recommended a structural reform.
- Of all three pension systems (employees, self-employed, civil servants) and on the basis of common principles.



Common Principles

- Uniform Foundation over all pension schemes (salaried workers, self-employed, civil servants)
- Variations must be justified on the basis of objective criteria
- Transparency
- Freedom of choice as to the moment of retirement
- Strong reward for effective work performance
- Calculation of pension based on entire career
- Adequate minimum protection
- Uniform treatment of family dimension

A social contract



The basic objective of a pension system consists of guaranteeing an appropriate standard of living for people after their active careers.

- The pension is a necessary income for retired people.
- For those still working, the pension system initially involves the obligation to pay social contributions.

Therefore, a pension system involves everyone: it must give everyone a clear perspective based on clear rules of play - young and old, those working and those retired.

A good pension system creates trust in the future, despite circumstances which could change and which are often unpredictable.

Distribution via a point system



- People collect points for their pensions during their careers.
- If an employee (or a civil servant or a self-employed person) earns as much in a given year as the average earned by an employee (or a civil servant or a self-employed person) during that year, they will then get one point on their account for that year. If they earn more than the average, they will receive more, if they earn less, they will receive less.
- In some limited cases one can also collect points during certain periods of inactivity which equals a work period.
- These points are converted into euros when one retires.

Distribution via a point system



- Pensions = (point) x (value of point)
- Value of a point in the year T
 $\approx f(\text{average income of active persons in year T})$
- Corrections

New “Swedish coalition” agreement:

9/10/2014



- First Centre-right government since May 1988
- Structural reduction of government expenditure & taxes
- Implements pension commission's main recommendations





Main elements of Pension reform

- Restricting conditions for early retirement
- Continued paid employment after pension age allowed
- Unlimited paid employment after retirement
- Introduction of part-time pension

- Reducing pension privileges of civil servants
- Reducing assimilated categories

- Increasing pension age: 66 by 2025, 67 by 2030
- Introduction of a new calculation system

- Pension Committee supported by knowledge centre



Main elements second pillar

- Development of second pillar for non-statutory public employees
- Second pillar for self-employed
- Gradual Increase of contribution levels to 3%

- Possibility for employees to get voluntary supplementary pension plan paid by wage-contributions paid by employer, with same fiscal treatment as second pillar
- Adjustment (no reduction) of fiscal treatment payment in capital and payment in rent
- Just “minimum guaranteed return”

- Government will assure attractiveness of Belgian market for Pan-European Pension funds
- Study improvement of third pillar

Website of the Commission



www.pensioen2040.belgie.be

www.pension2040.belgique.be