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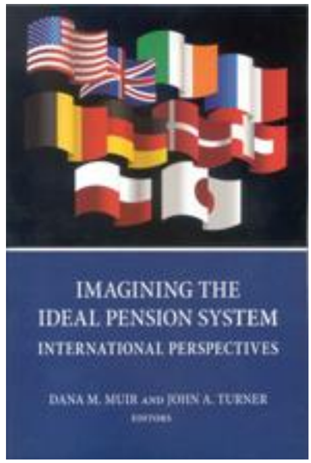

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Imagining the Ideal Pension System

International Perspectives

Dana M. Muir
John A. Turner
Editors

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The Ideal Pension System for Belgium

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This chapter discusses the ideal pension system for Belgium. Currently, the Belgian pension system is a subject of debate. Political and social actors have proposed substantial reforms. To get a good picture of the necessary reforms, value judgments and technical analyses have to be taken into account. Sometimes deep changes in the pension system are advocated as if they were technically unavoidable, but this is obviously wrong. Not only are there different reform options available, the choice between them is based on ideological background and value judgments. In this chapter, I develop a clear set of evaluation criteria for pension reforms. The main reform proposals are then evaluated in the light of these criteria.

First, I give an overview of the Belgian pension system. The structure, adequacy, and financing of the different types of pension plans are explained. Then I present the pension reform proposals of the main social and political actors in Belgium, where there is a consensus with respect to the necessity of a pension reform but no consensus with respect to concrete reform proposals. After evaluating the various pension reform proposals, I present my personal vision on the ideal pension system for Belgium.

OVERVIEW OF THE BELGIAN PENSION SYSTEM

In this first section, the structure, adequacy, and financing of the Belgian pension system are presented. The Belgian pension system consists mainly of statutory pension plans, supplemented by occupational and individual pension plans. This is a variant of the well-known three-pillar model. The statutory pension plans are pay-as-you-go defined benefit arrangements, the occupational pension plans are funded defined benefit or defined contribution arrangements, and the individual pension plans are funded defined contribution arrangements.

Structure of the Belgian Pension System

Statutory pension plans

In Belgium, employees (both public and private), self-employed workers, and civil servants (a special class of public employee in Belgium) are compulsorily insured under three different statutory pension plans.

Pension plan for employees. The statutory old-age pension for employees depends on annual earnings, length of career, and marital status. The formula for the pension accrual of employees in a given year is as follows: the pension accrual for year *X* is the wage of year *X* (capped) divided by 45 (the length of a full career) and multiplied by either 60 percent or 75 percent. The wage of year *X* is the gross salary during that year up to a certain ceiling (€47,282 in 2009, adjusted annually to current prices). The pension is computed as 60 percent of the capped wage for a single person or 75 percent for the head of a household (persons with a dependent spouse). At retirement, a statutory pension is paid as an annuity equal to the result of this formula.[1] Pension coverage is continued during unemployment or other forms of involuntary inactivity (illness, pregnancy, disability, etc.). These periods of inactivity are valued at the last corresponding salary. To claim an old-age pension, an employee must have reached the age of 65 and stopped working.[2] Pensions are paid monthly by direct deposit into the pensioner's bank account. Pension benefits are automatically adjusted to a price index and partially adjusted to average wage increases.

Pension plan for the self-employed. The statutory pension plan for the self-employed is similar to the employee plan, except for a reduction coefficient. The reduction coefficient reflects the discrepancy between the contributions paid by employees and by self-employed workers. Because there were no social security contributions by the self-employed prior to 1984, statutory pension rights were calculated based on a fixed income. The formula for the old-age pension accrual for self-employed individuals is basically the same as the employee plan except the amount is also multiplied by the reduction coefficient. There are also some other minor differences with respect to the employee plan.[3]

Pension plan for civil servants. The formula for determining the old-age and disability pensions for civil servants is different. The pension is equal to the average wage of the last 5 years multiplied by the length of the career (maximum of 45 years) divided by 60 (the retirement factor). To receive a pension benefit, a civil service career of at least 5 years is required.[4] At the maximum career length of 45 years, a replacement rate of 75 percent of the average wage of the last 5 years is obtained. Some occupations have a preferential retirement factor (55 for teachers and less for other specific categories such as magistrates and academic services). People in these areas therefore reach the maximum replacement rate of 75 percent in less than 45 years.

With some exceptions, the legal retirement age is 65 for men and women, and retirement with pension benefits is possible from the age of 60. The pension benefit is biannually adjusted to the consumer price index (CPI) and to the real wage increase of working civil servants. To benefit from a minimum pension, a career of 20 years is required. In addition, the survivor's pension is calculated as 60 percent of the average wage of the last 5 years of the deceased person.

Early retirement pension. An early retirement plan (the so-called prepension) is embedded in the unemployment plan, but only for employees. The full prepension consists of an unemployment benefit, paid by the public authorities (the National Employment Office), which amounts to 60 percent of the last gross wage earned, limited by a ceiling, which is different from that used in the pension plan. The beneficiaries also receive an allowance, paid by the employer. Since 2008, the legal age to receive the prepension is 60, provided the career length as an employee was at least 30 years for men (35 years as of 2012) and 26 years for women (after 2008, this age increases by 2 years every 4 years until it reaches 35 years). Exemptions (for those who have reached at least age 58) are still possible for those who have worked in physically demanding jobs. The prepension benefit is automatically adjusted to the CPI and partially adjusted to average wage increases.

Disability. If a person's disability prevents him or her from working for more than one year, a disability benefit is paid. In the employee plan, disability benefits are calculated at 65 percent of the limited lost remuneration for beneficiaries who are a head of a household, 53 percent for single persons, and 40 percent for cohabitants. In the self-employed workers' plan, the disability benefits are fixed but differ according to whether the beneficiary is a head of household. The disability benefit is automatically adjusted to the CPI and partially adjusted to average wage increases.

Guaranteed income for elders. Every person 65 or older whose pension plus other income is below a certain threshold is entitled to a means-tested guaranteed income for the elderly (GIE). In 2009, the GIE was €892.92 per month for a single person and €595.33 per month for cohabitants (for each person). The GIE benefit is automatically adjusted to the CPI and partially adjusted to average wage increases.

Occupational pension plans

In general, occupational pensions in Belgium are not mandatory, and only a few branches of industry have a mandatory occupational pension plan. The occupational pension must be externally funded by either group insurance companies or pension funds.[5] About 70 percent of pension plan members are covered under an insurance contract. Hence, the Belgian occupational pension landscape is dominated by insurance companies.

Legal framework. The legal framework for occupational pension plans was implemented at the beginning of 2004. The "Vandenbroucke Law" was enacted in 2003 to strengthen occupational pensions and regulate industry-wide pension plans. It covers occupational pensions, a tax plan for those pensions, and some related social security benefits.

Industry-wide pensions. Industry-wide pension plans are the result of collective bargaining agreements between social partners, for example, employer associations and trade unions.[6] Employers of a given branch of industry are obliged to join the industry-wide plan, unless the collective bargaining agreement allows them to opt out of the plan. Opting out is only possible if the employer offers an occupational pension plan at the company level providing benefits equivalent to the industry-wide plan.

Tax treatment. Belgium has enacted tax legislation improving the tax-exempt status of occupational pension contributions. The tax treatment of occupational pensions is based on the so-called exempt-exempt-taxed system, meaning that contributions and investment earnings are almost exempt from taxes, but benefit payments are taxed. However, instead of the normal social security tax of approximately 35 percent of gross salary, a special social security tax of 8.86 percent and an insurance tax of 4.4 percent are imposed on contributions to occupational pension plans.

For the employer, contributions to occupational pension plans are tax-deductible to a certain amount. This deductibility is linked to the condition that the expected sum of statutory and occupational pensions does not exceed 80 percent of gross salary in the given year. For the employee, contributions to occupational pensions are not part of the employees' taxable income. Income tax is only paid on the benefits received at retirement. If the benefit is paid as a lump sum, it is subject to a flat-rate tax (10 or 16 percent). If the benefit is paid as an annuity, the annuity is taxed as normal income, but the actual tax is lowered by a special tax credit for retirees.

Social plans. So-called social plans can be set up, either at the company or the industry level. Contrary to ordinary occupational pension plans, social plans are required to offer benefits for risks such as death, disability, or unemployment. In order to finance these risks, part of the contributions must be allocated in a "solidarity" fund. These so-called solidarity payments have to amount to at least 4.4 percent of contributions. Other requirements include joint management, cost reduction, and profit sharing. Social plans are encouraged through special tax advantages, such as relief from the 4.4 percent insurance tax.

Guaranteed investment return. From 2004 onward, Belgium has required a minimum rate of return guarantee for defined contribution pensions. The minimum guaranteed rate is 3.25 percent for contributions by employers and 3.75 percent for contributions paid by employees. These rates are considered to be set for an indefinite period, presumably lasting many years. If the employment contract ends, the employee can transfer his accrued reserves either to the occupational pension plan of his new employer or to a freely chosen insurance company. He can also opt for a further accrual within the occupational pension plan of his former employer. If the employee decides to leave the plan, the company is responsible for complying with the guaranteed investment return. If there is an accrual deficit, the gap has to be bridged immediately.

Minimum retirement age. A beneficiary is prohibited from cashing in accrued reserves or getting his or her benefits paid out before reaching the age of 60. Benefits can be paid out as an annuity or as a lump sum. The vast majority of occupational pensions are paid out as a lump sum. Therefore, indexation of occupational pension benefits is not an issue in Belgium.

Individual pension plans

Different forms of individual voluntary pension provision exist in Belgium. The main forms are life insurance, pension saving, individual pension commitments, and voluntary pensions for the self-employed. The common features of these different forms are the voluntary character of participation, the contributory character of funding, and the management of the assets by private actors, such as insurance companies or financial institutions (De Witte, Roels, and Stevens 2009).

Individual life insurance. The main characteristic of individual life insurance agreements is the provision of an annuity or lump sum payment at the moment the insured person reaches a certain age or dies. Individual life insurance is accessible for everybody, irrespective of professional status. An individual life insurance agreement is financed by premiums paid by the subscriber. The level of the premiums is agreed upon and stated in the insurance contract. The premiums are invested in insurance contracts that guarantee a capital value based on a fixed interest rate. The subscriber can also choose investment in real estate through a tax incentive based on a mortgage loan and debt insurance that is linked to the mortgage loan.

Pension saving. Pension saving is the generic term for three forms of tax-advantaged long-term savings that are accessible to everybody: 1) pension saving insurance, 2) collective pension saving, and 3) individual pension saving. Pension savings are accessible to everybody. Pension savings accounts and individual pension savings are offered by financial institutions (mainly banks). Contributions to pension savings accounts are used to buy units in investment funds. These funds are popular because they allow a wide choice of assets and risks. Contributions to individual pension savings are invested in shares chosen by the individual.

Individual (occupational) pension commitments. Individual pension commitments are strictly regulated. Individual pension commitments are only permitted in companies that have a collective occupational pension plan for all employees. This implies that a commitment can only be granted in addition to such a collective occupational plan. Measures to protect employees are included, such as the obligation to conclude a pension agreement, to finance it externally with a pension provider, and to obtain the explicit approval of the employee for personal contributions.

Voluntary pensions for the self-employed. A specific individual voluntary pension provision for the self-employed was introduced in Belgium because statutory pensions for the self-employed are low (see below). Voluntary pension plans for the self-employed are very similar to individual life insurance.

Adequacy of the Belgian Pension System

In this section, we review the adequacy of the Belgian pension system by focusing on three aspects: 1) coverage, 2) risk sharing, and 3) benefits.

Coverage

Statutory pension plans. In Belgium, employees, the self-employed, and civil servants are all compulsorily covered under statutory public pension plans. These plans are part of the Belgian social security system. The payments are deducted from the employees' regular pay, and the self-employed pay obligatory contributions on a quarterly basis.

Occupational pension plans. According to the most recent figures, approximately 60 percent of employees are members of an occupational pension plan. Approximately the same number of white and blue collar workers are members of occupational pension plans (AON Consulting 2007; Assuralia 2009; Belgian Parliament 2009; de Dessus les Moustier and Masy 2007). The majority of occupational pension plans are organized at the company level, and these plans provide higher pension contributions than industry-wide pension plans. They involve primarily white collar workers and impose no solidarity mechanisms (Pierreux 2009). In 2009, the 27 existing industry-wide plans covered 740,485 plan members (83 percent were men and 81 percent were blue collar workers, CBFA 2009). The number of industry-wide plans is increasing. Higher income workers benefit more from occupational pensions and the tax relief they offer than lower income workers.[7]

Individual pension plans. According to Wuyts et al. (2007), participation in individual pension plans rose strongly during the last decade. In 2006, 37 percent of the people in Belgium between the ages of 15 and 64 participated in one or more individual pension plans. Unsurprisingly, income is a very important factor for participation. The average income of individual pension plan members was €24,410 in 2003. Only 9.1 percent of single people with a monthly income less than €750 participate in individual pension plans, whereas almost 50% of single people with a monthly income above €2,000 participate (De Witte, Roels, and Stevens 2009). Persons who participate in occupational pensions also participate markedly more frequently in individual pensions (Gieselink et al. 2003). Self-employed persons participate in and contribute more to individual pension plans, which in part could be due to their lower statutory pension (see below).

Benefits

Statutory pension benefits. The GIE is €892.98 per month for singles and €595.33 per month for cohabitants (in 2009). Every person who meets the requirement of a defined link to Belgium and is at least 65 years old is eligible for the GIE. The financial means of an individual is checked, and if the individual's total income is lower than the guaranteed amount, the difference is paid monthly.

Unlike the GIE, which has no link whatsoever with the contributions paid in the past, statutory pension benefits for employees, the self-employed, and civil servants are related to contributions (up to a certain level). Table 7.1 presents the average monthly statutory pension benefits.

The average statutory pension benefit for employees is €891.42 per month for a single male and €631.47 per month for a single woman (assuming both have been employees during their entire careers). These benefits are considerably lower for the self-employed and considerably higher for civil servants.[8] The average gross monthly wage in Belgium was €2,837 in 2007 (NIS 2007), so the difference between statutory pension benefits and average salary is considerable. Table 7.1 presents the average replacement rates in 2008,[9] which are quite low, except for civil servants.

Table 7.1 Average Statutory Old-Age Pension Benefits and Average Replacement Rates (in Parentheses) for Single Persons (Gross Amounts, € and %)[a]

	Men	Women
Employees	891 (47)	631 (56)
Self-employed workers	676 (48)	331 (62)
Civil servants	1,980 (64)	1,488 (62)

[a] National Pension Administration, monthly statistics, November 2009 (for civil servants: 2005).

Occupational pension benefits. Occupational pension benefits increase statutory pension income by an average of 16 percent for men and 13 percent for women (Belgian Secretary of Pensions 2010). However, this average has to be put in perspective. Amounts spent for plans covering the highest income workers are four to five times higher than amounts spent for pension plans for lower income workers: 6.3 percent of salary is spent on the top plans, 3.4 percent on plans for white collar workers, and only 1.4 percent on plans for blue collar workers (AON Consulting 2007). Industry-wide pension plans in Belgium cover many employees, but the benefits paid out are exceedingly marginal (between 0.75 and 1.75 percent of actual salary).[10]

Individual pension benefits. The benefit amounts paid out by individual pension plans are unknown because of a lack of necessary data. Data concerning the accrued reserves in individual pension plans do exist, but they are incomplete because they do not take into account the investments of households in real estate, which is stimulated with the same tax incentives as individual life insurance plans.

Table 7.2 presents the evolution of accrued reserves in individual and occupational pension plans during the last decade. For the individual pension plans, the value of real estate accrued with tax-driven incentives is not taken into account. Even without taking the investments in real estate into account, the reserves of individual pension plans have increased greatly since 1998. These reserves have tripled, whereas the reserves of occupational pension plans only doubled.

Table 7.2 Evolution of Occupational and Individual Pension Reserves (€ billion)

	Pension reserves										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Occupational pensions	30	35	37	36	38	42	44	46	48	53	58
Individual pensions	45	53	58	62	68	80	96	116	135	142	147

SOURCE: Belgian Secretary of Pensions (2010, p. 234).

Risk sharing

Pension accrual often takes place over a period of decades. Therefore, risk control is a key issue. The main risks that threaten pension accrual are: longevity, inflation, financial, bankruptcy of the pension provider, and political. These risks cannot be entirely avoided, but they can be shared within smaller or larger groups. Four different levels of risk sharing can be distinguished: 1) no risk sharing (the individual plan or plan member bears the risk), 2) risk sharing within a company, 3) risk sharing within the branch of industry, and 4) nationwide risk sharing. An overview of the scope of risk sharing within the different forms of pension accrual in Belgium is presented in Table 7.3.

Risk sharing in statutory pension plans. Risk pooling in the statutory pension plans is based on a nationwide separation of employees, the self-employed, and civil servants (which have several different pools). Except for a few minor exceptions, the statutory pension plans are organized on a pay-as-you-go basis. The risk of inflation and financial turbulence in pay-as-you-go systems is very restricted. The other risks are present, but they are shared within a nationwide pool. Given the fact that statutory pension benefits are required to be paid out as annuities, the longevity risk is shared within each nationwide pool. The risk of bankruptcy of the pension provider (i.e., the Belgian state) is not completely unimaginable, but the risk is also shared within each nationwide pool. Finally, statutory pensions are subject to the risk of changes in pension or social security regulations (i.e., political risk). However, retroactive changes are difficult to enforce, given the protection as property of state and social security pensions.

Risk sharing in occupational pension plans. The longevity risk in occupational pension plans is borne by the individual plan member because occupational pension benefits are almost always paid out as lump sums. The inflation risk during the period of pension accrual is shared at the company level for defined benefit plans and borne by the individual plan member for defined contribution plans. The risk of financial crises and bankruptcy of the pension provider are real and reside at the company level. Moreover, the law fixes a minimum guaranteed return on occupational pension contributions. This means that the employer

Table 7.3 Scope of Risk Sharing within the Different Forms of Pension Accrual in Belgium

		Individual pension plans		Occupational pension plans				Statutory pension plans	
Scope of risk sharing		Pension saving	Individual life insurance	Company plan (DC)	Company plan (DB)	Industry-wide plan (DC)	Social industry-wide plan (DC)	Statutory pensions	GIE
Longevity	No risk sharing	X	X	X	X	X	X		
	Company								
	Branch of industry								
	Nationwide							X	X
Inflation	No risk sharing	X	X	X		X	X		
	Company				X				
	Branch of industry								
	Nationwide							X	X
Financial risks	No risk sharing	X	X						
	Company			X	X				
	Branch of industry					X	X		
	Nationwide							X	X
Bankruptcy of the pension provider	No risk sharing	X	X						
	Company			X	X				
	Branch of industry					X	X		
	Nationwide							X	X

NOTE: DB = defined benefit; DC = defined contribution.

remains liable to the individual plan members concerning the payments of the pension benefits, including a minimum return, when the pension fund or insurance company fails to fulfill its obligations. With respect to the investment of pension funds, Belgium applies the prudent person principle, with some quantitative limits that are mainly diversification requirements. With respect to group insurance, the reserves are invested in the general investment portfolio of the insurance company, and the insurance company determines the investment policy. The effect of political changes on occupational pension promises seems very small.

Risk sharing in individual pension plans. In individual pension plans, the longevity and inflation risks are borne by the individual plan member. The risks of financial crises and bankruptcy are shared at the company level. However, contrary to occupational pensions, the law does not require a guaranteed minimum return. The bankruptcy of the pension provider will mean the loss, in whole or part, of the pension reserves.[11] The effect of political changes on individual pensions seems very small.

Financing and Expenditure

Financing

Statutory pension plans. All employees and self-employed persons in Belgium pay compulsory contributions for the statutory pension plans. Contributions for employees are just over 16 percent of gross salary. Self-employed persons pay much less.[12] General government revenues subsidize approximately 10 percent of annual costs (Dellis, Jousten, and Perelman 2001).

Occupational pension plans. In occupational pension plans, the contribution rate in percentage of annual salary is usually established in the plan rules. Most plans are predominantly employer financed with contribution rates usually ranging from 0.5 to 1 percent for lower income workers and 4 to 5 percent for higher income workers. The total contributions paid in Belgium for occupational pension plans amounted to €5.1 billion in 2007. Total occupational pension reserves in Belgium amounted to €48.74 billion in 2007.[13]

Individual pension plans. No one knows exactly how important individual pension plans are in Belgium because of the previously mentioned lack of data for this form of pension accrual. According to the Social Policy Centre of the University of Leuven (CeSo), 2.63 million residents participated in pension saving or life insurance in 2006. The total contributions and premiums paid amounted to €2.1 billion (Berghman 2009). However, considerable differences can be found depending on whether or not long-term savings linked to mortgage loans for investment in real estate are taken into account. As mentioned above, similar tax relief applies to the reimbursement of a mortgage loan for a dwelling as to the payment of premiums for an individual life insurance policy. Therefore, certain researchers classify this form of saving as an individual pension. According to Gieselink et al. (2003), total premiums and contributions to individual pension plans amounted to €10 billion in 2000 (i.e., 4.2 percent of GDP). Following the same approach as Gieselink, we calculated that total premiums and contributions to individual pension plans amounted to €16 billion in 2006 (i.e., 5.4 percent of GDP).[14]

Expenditure

To compare the expenditures for the different types of pension accrual, Table 7.4 presents an overview of the weight of the various pension plans in Belgium from two perspectives. First, pension spending for the statutory pension plans is compared with pension provisions for the occupational and individual pension plans (statutory pensions are pay as you go and occupational and individual pensions are funded). Second, statutory pension entitlements are compared with occupational and individual pension reserves.

In 2007, statutory pension spending (including prepensions and disability allowances) amounted to 10 percent of GDP.[15] In the same year, occupational pension accrual amounted to 1.52 percent of GDP. In 2006, individual pension accrual amounted to 0.66 percent or 5.1 percent of GDP, depending on whether or not pension accrual linked to a mortgage is taken into account.

In 2007, statutory pension entitlements amounted to 250 percent of GDP, and occupational pension reserves amounted to about 14.5 percent of GDP. Individual pension reserves amounted to 45.1 percent of

GDP in 2006 (pension accrual linked to a mortgage was not taken into account). No exact data are available concerning the real estate property of the elderly, but the macroeconomic wealth of the country is well known. It grew from €200 billion in 1970 to €1,300 billion in 2002. Approximately half of this wealth (€650 billion) is estimated to be linked to real estate, mainly dwellings (Belgian Secretary of Pensions 2010). This represented 240 percent of GDP in 2002.

Although the comparison is simplified and exact figures are lacking in some categories, the overview gives an idea of the proportion of investment in the different forms of pension accrual in Belgium. The financial assets invested in statutory pensions are the most important (250 percent of GDP in 2007), whereas the financial assets invested in occupational pensions are clearly less important (14.5 percent of GDP in 2007). The financial assets invested in individual pensions are considerable (45.1 percent of GDP in 2006), even more so if tax-driven investments in real estate are taken into account (up to 240 percent of GDP in 2002).

Projections

In 2007, Belgium had 1.8 million residents older than 65. This number will increase to 2.2 million in 2020 (i.e., 20.6 percent of the total population), 2.65 million in 2030 (24.3 percent), 2.86 million in 2040 (26.1 percent), and 2.90 million in 2050 (26.5 percent). In 1990, for every person older than 65, Belgium had four persons between 20 and 65. In 2020, for every person older than 65, there will only be three persons between 20 and 65. By 2040, this proportion will be two persons between 20 and 65 for every person older than 65.[16]

Projections of the impact of demographic changes on pension spending are only available for statutory pensions. There are no projections for occupational and individual pensions because they are not mandatory (except for a few branches of industry, where an industry-wide plan is installed). Table 7.5 presents the results of projections for expenditure for statutory pensions, as well as an estimate of the tax incomes on statutory pensions, both expressed as percentage of GDP.

Expenditure for statutory pensions increases by 3.9 percent of GDP between 2007 and 2030. Then, between 2030 and 2060, pension expenditure is projected to increase by another 0.8 percent of GDP. Employee

Table 7.4 **Relative Weight of the Various Pensions in 2007 (2006 for Individual Pension Plans)[a]**

		Pension spending/provisions[b]		Pension entitlements/reserves		Plan members	
		€ billion	% GDP	€ billion	% GDP	Number	%
Statutory pensions	Total	33.51[c]	10.00	837.75	250.00[d]	4,681,394	100% of active population
Occupational pensions	Total	5.10[e]	1.52	48.47	14.46	2,492,679[f]	60% of employees
	Insurance companies	4.13	1.23	NA	NA	1,794,728	43% of employees
	Pension funds	0.97	0.29	NA	NA	697,950	17% of employees
Individual pensions	Total (excl. mortgage)	2.10[g]	0.66	142.50	45.10	2,626,000[g]	37% of population aged 15–64
	Total (incl. mortgage)	16.00[h]	5.10	NA	NA	NA	NA
	Individual life insurance	0.91	0.27	NA	NA	1,465,000	20.1% of population aged 15–64
	Pension saving	1.20	0.35	NA	NA	1,859,000	26.4% of population aged 15–64

NOTE: NA = not available.

[a] In 2007 in Belgium, GDP was €335 billion, total population was 10,584,534, total population between 15 and 64 years of age was 7,046,685, and the active population (people working plus people searching for a job) was 4,681,394. The activity rate (i.e. percentage of working population plus the unemployed) was 67.1 percent. In 2006 Belgian GDP was equal to €316 billion.

[b] More recent figures concerning costs of the statutory pensions in Belgium are available. In 2010 the total costs of statutory pensions were €33.7 billion, broken down as follows: civil servants plan, €9.9 billion; employees plan, €18.2 billion; self-employed plan, €2.7 billion; GIE, €0.4 billion; and others, €2.5 billion (Belgian Secretary of Pensions 2010, p. 124).

[c] Belgian Secretary of Pensions (2010).

[d] Capretta (2007), OECD (2006), and Dellis, Jousten, and Perelman (2001, p. 3).

[e] Belgian Secretary of Pensions (2010), Hannes (2009), Sommerijns and De Bilderling (2009), and Belgian Parliament (2008–2009).

[f] Belgian Parliament (2009).

[g] Berghman (2009).

[h] Data from the Banking, Finance and Insurance Commission, analyzed in De Witte, Roels, and Stevens (2009).

Table 7.5 Projected Gross Statutory Pension Spending (% GDP)

Projected expenditures	2000	2007	2020	2030	2040	2050	2060	Peak year
Statutory pension plans								
Total	10.0	10.0	11.8	13.9	14.6	14.7	14.7	2056
Employee plan	5.1	4.9	5.9	7.1	7.6	7.7	7.7	2057
Self-employed plan	0.7	0.7	0.8	0.8	0.8	0.8	0.7	2035
Civil servants' plan	2.9	3.1	4.0	4.8	5.0	5.1	5.2	2060
GIE	0.1	0.1	0.1	0.1	0.1	0.1	0.1	2036
Prepension	0.5	0.4	0.3	0.3	0.3	0.3	0.3	2000
Disability	0.7	0.8	0.8	0.8	0.7	0.7	0.7	2018
Taxes on statutory pension benefits	—	1.3	1.5	1.9	2.0	2.0	2.0	2057

and civil servant plans are jointly responsible for these increases. The other pensions remain stable or decline slightly. Together, the employee and the civil servant plans make up 80 percent of the total public pension expenditure, and this proportion increases to 87 percent in 2060. Because of the rising statutory pensions, tax income on these pension payments will also increase from 1.3 percent of GDP in 2007 to 2 percent of GDP in 2060.

PENSION REFORM PROPOSALS OF THE MAIN SOCIAL AND POLITICAL ACTORS

There is a consensus in Belgium with respect to the necessity of a pension reform. The main social and political actors refer to two problems of the Belgian pension system: budgetary sustainability and social sustainability. However, no consensus exists with respect to concrete pension reform proposals. In fact, very different and opposing ideas exist. This section summarizes the reform proposals of the main social and political actors.

Federation of Enterprises in Belgium

According to the Federation of Enterprises in Belgium (FEB), the insurance character of the statutory pension plan for employees should be enforced (FEB 2010). The FEB wants to change three mechanisms of the employee plan: 1) the early retirement age,[17] 2) the capped benefits,[18] and 3) the so-called free rights.[19] The FEB proposes an increase in the actual and legal retirement age. To increase the actual retirement age, the FEB proposes the valuation of the labor period after the age of 60 at a higher rate (115 percent) and the valuation of periods of inactivity before the age of 60 (unemployment, prepension, etc.) at less than 100 percent. The FEB refers to the Swedish pension system, where individual accounts within the first pillar were introduced, and rising life expectancy has been corrected for by decreasing pension benefits. According to the FEB, the statutory pension plan for civil servants is much too favorable compared to the pension plans of employees (in the public and the private sector) and the self-employed. The calculation of the statutory pension for civil servants should be based on the principles of the statutory pension for employees.

According to the FEB, occupational pension plans are necessary to increase replacement rates. The FEB proposes the facilitation of occupational pension accrual by allowing workers to invest more of their wages directly into their occupational pension plans. In addition, the FEB believes that tax relief for the individual pensions encourages people to save, and it should therefore remain unchanged.

Trade Unions[20]

According to the trade unions, only statutory pension plans guarantee solidarity. Therefore, they should be strengthened. Trade unions claim that statutory pension benefits for employees are too low. Twenty-five percent of the current pensioners in Belgium are poor according to the European poverty standard (i.e., 60 percent or less of the median wage). Increasing the benefits for employees with lower incomes is a priority for the trade unions. They support increasing the GIE to the European poverty standard and the minimum pension to 110 percent of the European poverty standard. In addition, the trade unions also want to increase statutory pensions for employees with higher incomes. The Socialist trade union (FGTB-ABVV) proposes an increase in the statutory employee pension formula, from the current 60 percent of average income to 75 percent of average income. The trade unions do not agree with an increase in the legal retirement age, which will decrease pension benefits. Finally, the trade unions want automatic adjustment of statutory pension benefits to the CPI and real wages (for the moment, adjustment of statutory pension benefits is not automatic and is only related to CPI, not to real wage increases).[21]

To finance the extra expenditures, the trade unions propose three measures: 1) the so-called General Social Contribution, which is an alternative financing mechanism for the social security system (statutory pensions are embedded in this system) that includes social contribution on all types of incomes (instead of only labor income); 2) higher social security contributions for the self-employed; and 3) a phase-out of the tax relief for individual and occupational pension plans.

The trade unions are not opposed to the further development of occupational pensions, as long as those pensions also benefit employees with lower incomes.[22] The Christian trade union (CSC-ACV) proposes a ban on risk-bearing investments in occupational pensions. The Socialist trade union proposes the development of more mandated occupational pensions with solidarity mechanisms (e.g., pension accrual during unemployment and illness). With respect to individual pension plans, the trade unions are unanimous. They believe that tax relief should be abandoned, given the fact that this relief is clearly to the benefit of higher income persons, who do not need these incentives to invest in pensions.

Pensioners

The Advisory Committee for the Pension Sector was created to give recommendations with respect to the organization and reform of the pension system. This Committee covers about 40 pensioner associations in Belgium. The Committee proposes that absolute priority must be given to statutory pension plans. The Committee argues for a minimum pension equal to the minimum salary and an upgrading of the current pension benefits. According to the Committee, current pension benefits have lost their purchasing power as a result of inadequate CPI adjustments. The extension of the occupational pensions is not a solution according to the Committee because these pensions increase inequality and insecurity. Moreover, the Committee says that 1 percent of salary invested in statutory public pensions provides a higher pension benefit than 1 percent of salary invested in occupational pensions.[23]

In order to finance extra expenditures for statutory pensions, the Committee proposes the introduction of a wealth tax. Although the Committee did not make a concrete proposal, it refers to France where such a tax exists. In addition, the Committee proposes a phase-out of tax relief for occupational and individual pension plans.

Government

With an aging population set to put mounting pressure on the budget in the decades ahead, in 2001 the Belgian government created the so-called Silver Fund, which is a budgetary trust fund that was supposed to cover a portion of future pension costs. The idea was to reduce the debt-to-GDP burden in the near term, leaving room for the government to run budget deficits as the population ages and statutory pensions and health care costs rise. The fund was financed by privatization proceeds and budget surpluses. The government's goal was to turn the projected budget deficit of 0.1 percent of GDP in 2001 into a surplus of 0.7 percent of GDP in 2005 and 1.5 percent of GDP in 2010 and thereafter. However, these targets were never met. On the contrary, the recent financial and economic crisis strongly increased the debt-to-GDP burden, and the Silver Fund remains fundamentally empty.

In 2005, the Belgian government tried to increase the actual retirement age. A new early retirement regulation, the "Generation Pact," was enacted. The results thus far have been limited, however. Currently there are no concrete pension reform proposals from the government. Within most political parties, a consensus exists about the guidelines formulated by the EU in Stockholm in 2001, that is, decrease government debt, increase employment and labor productivity, and decrease costs of public pension systems and health care. In the *Green Paper: A Future for our Pensions* (Belgian Secretary of Pensions 2010), the government refers to a series of possible reforms. The following reforms focus on the budgetary sustainability of the system: increased retirement age, decreased pension benefits, decreased tax relief for occupational and individual pensions, and increased taxes. In addition, two reforms that focus on social sustainability were introduced: increased minimum pension benefits and increased participation in occupational and individual pension plans. Some of these proposals are discussed in the next section.

EVALUATION OF THE VARIOUS PENSION REFORM PROPOSALS

Many different reform options are available, and the choice between them is based on ideology and value judgments. To be clear about the evaluation criteria used, I first develop a set of evaluation criteria and then evaluate the various reform proposals discussed above in terms of these criteria.

Evaluation Criteria

In this section, four types of pension accrual are defined: 1) long-term savings, 2) private insurance, 3) social insurance, and 4) social security. These four types are then distinguished on the basis of their intrinsic features, using the following criteria: the degree of redistributive solidarity, the scope of risk sharing, and the degree of protection of pension rights.

Degree of redistributive solidarity

Various forms of pension accrual can be distinguished based on their degree of redistributive solidarity. The four degrees of redistributive solidarity are as follows: 1) no redistribution at all, 2) redistribution based on "probability-solidarity," 3) redistribution based on "risk-solidarity," and 4) redistribution based on "income-solidarity." Redistribution based on probability-solidarity is present when different persons with similar risk profiles are pooled in one group and pay the same pension contributions or insurance premiums. Redistribution in this group is from those who do not actually experience the adverse event (e.g., death in the case of survivor's benefits) to those who do, even though they all share a similar probability of experiencing it. Redistribution based on risk-solidarity is present when different persons with different risk profiles are pooled together and pay the same pension contributions or insurance premiums. In this system, persons with better risk profiles subsidize persons with inferior risk profiles. Redistribution based on income-solidarity involves contribution or premium differentiation based on income, so that persons with higher incomes pay higher premiums for the same benefits. In this system, direct income redistribution takes place, independent of risk profiles. The degree of reciprocity in a system based on income-solidarity can be higher or lower. If there is no link between entitlement to benefits and the payment of contributions in the past, the degree of reciprocity is nil (e.g., the GIE in Belgium). However, in many income redistributive systems, there is some connection between the entitlement to benefits and the payment of contributions in the past (e.g., the statutory pension plans in Belgium). Risk- and income-solidarity are necessarily linked to a certain degree of mandatory membership (Stevens 2002).

Scope of risk sharing

Pension accrual often takes place over a period of decades. Therefore, risk control is a very important issue. As discussed previously, there are five primary risks that threaten pension accrual and four scopes for distinguishing risk sharing (Table 7.3).

Degree of protection of pension rights

The protection of pension rights varies for different types of pension accrual. Protection can be granted on three fields: 1) protection of investment returns, 2) protection against bankruptcy of the pension provider, and 3) protection of the destination as pension (e.g., interdiction of provisions on lump sum payments and early withdrawals). In the protection of the investment returns, three options are available: no guaranteed investment returns, guaranteed investment returns by contract (optional), and guaranteed investment returns by law (mandatory). In the protection against bankruptcy of the pension provider, four degrees of protection are possible: 1) no protection, 2) liability of the sponsor for the payment of the pension benefits, 3) pension protection funds, and 4) state guarantees. In the protection of the destination as pension, three degrees of protection can be distinguished: no prohibition of payout before pensionable age and no prohibition of payout as a lump sum after pensionable age; prohibition of payout before pensionable age, but no prohibition of payout as a lump sum after pensionable age; and prohibition of payout before pensionable age and obligation of payout as an annuity after pensionable age.

Four types of pension accrual

Based on the above-mentioned features, we defined four types of pension accrual. These types are prototypes, which do not necessarily correspond to real forms of pension accrual in Belgium or other countries. We named these types long-term savings, private insurance, social insurance, and social security. Long-term savings is a type of pension accrual without any form of redistributive solidarity, no risk sharing, and no protection of pension rights. Private insurance is a type of pension accrual with redistributive effects based on probability-solidarity, risk sharing at the company level, and limited protection of pension rights. Social insurance is a type of pension accrual with redistributive effects based on risk-solidarity, risk sharing at branch of industry level, and heavy protection of pension rights. Social security, finally, is a type of pension accrual with income-redistributive effects, nationwide risk sharing, and heavy protection of pension rights. A schematic overview of the distinguishing criteria of these four types of pension accrual is shown in Table 7.6.

The various forms of actual pension accrual in Belgium are evaluated in Appendix 7A with respect to their degree of redistributive solidarity, scope of risk sharing, and degree of protection of pension rights. The results of this evaluation are reordered in Table 7.7 to show the various forms of pension accrual in Belgium relative to accrual prototype. The table shows some interesting results. First, it shows that no form of actual pension accrual in Belgium corresponds entirely to one prototype. Each form of pension accrual presents features of different prototypes of pension accrual.

The individual pension plans are entirely based on the long-term savings and private insurance prototypes. Their degree of redistributive solidarity, risk sharing, and protection of pension rights is very low.

The occupational pensions, except for social industry-wide plans, also show many similarities with the long-term savings and private insurance types of pension accrual. This is remarkable, given the fact that occupational pensions are often referred to in Belgium as social insurance systems. The only social insurance features of the occupational pension plans are the risk-solidarity in defined benefit survivor's pensions and social industry-wide pensions, the sharing of bankruptcy and financial risks at the branch of industry level for industry-wide plans (longevity and inflation risk are not shared, see Table 7A.1), and the liability of the sponsor in case of bankruptcy of the pension provider. Moreover, a social security feature is present—the mandatory guaranteed investment return.

As might be expected, the statutory pension plans have the most properties of social security, and the GIE is clearly social security because income redistributive solidarity, without any reciprocity, is present (the entitlement to GIE benefits is not linked to the payment of contributions in the past). For the other statutory pensions, a certain degree of reciprocity is present (benefits are calculated based on earnings in the past). This is a social insurance character of the statutory pension plans for employees, civil servants, and the self-employed. However,

Table 7.6 Four Types of Pension Accrual

Type of pension accrual	Features
Long-term savings	1) No redistributive solidarity 2) No risk sharing 3) No protection of pension rights • No guaranteed investment returns • No protection against bankruptcy of the pension provider • Payment of pension benefits as a lump sum at any moment in time
Private insurance	1) Redistributive effects based on probability-solidarity 2) Risk sharing at company level 3) Small protection of pension rights • Guaranteed investment returns by contract (optional) • No protection against bankruptcy of the pension provider • Payment of pension benefits as a lump sum at the date in the insurance contract
Social insurance	1) Redistributive effects based on risk-solidarity 2) Risk sharing at branch of industry level 3) Medium protection of pension rights • Guaranteed investment returns by contract (optional) • Liability of the sponsor in case of bankruptcy of the pension provider • Payment of pension benefits in the form of an annuity at retirement age

Social security	1) Income-redistributive effects 2) Nationwide risk sharing 3) High protection of pension rights • Guaranteed investment returns by law (mandatory) • Pension protection funds or state guarantee in case of bankruptcy of the pension provider • Payment of pension benefits in the form of an annuity after retirement

Table 7.7 Classification of the Different Forms of Pension Accrual in Belgium

		Individual pension plans		Occupational pension plans				Statutory pension plans	
Types of pension accrual		Pension saving	Individual life insurance	Company plan (DC)	Company plan (DB)	Industry-wide plan (DC)	Social industry-wide plan (DC)	Statutory pensions	GIE
Long term savings	No redistributive solidarity	X		X	X	X			
	No risk sharing	X	X	X	X	X	X		
	No guaranteed investment return	X							
	No protection against bankruptcy	X	X						
	Payment of pension benefits as a lump sum at any moment in time	X							

Private insurance	Redistributive effects based on probability-solidarity		X					
	Risk sharing at company level		X	X	X	X		
	Guaranteed investment return (by contract)	X	X		X			
	Payment of pension benefits as a lump sum at the date in the contract		X	X	X	X	X	
Social insurance	Redistributive effects based on risk-solidarity				X		X	
	Income-redistributive effects (with a certain degree of reciprocity)							X
	Risk sharing at branch of industry level					X	X	
	Liability of the sponsor in case of bankruptcy of the pension provider			X	X	X	X	
	Payment of pension benefits as an annuity at pensionable age							

(continued)

Table 7.7 (continued)

		Individual pension plans		Occupational pension plans				Statutory pension plans	
Types of pension accrual		Pension saving	Individual life insurance	Company plan (DC)	Company plan (DB)	Industry-wide plan (DC)	Social industry-wide plan (DC)	Statutory pensions	GIE
Social security	Income-redistributive effects (without reciprocity)								X
	Nationwide risk sharing							X	X
	Guaranteed investment return (by law)			X		X	X		
	Protection fund or state guarantee in case of bankruptcy of pension provider							X	X
	Payment of pension benefits as an annuity after retirement							X	X

NOTE: DB = defined benefit; DC = defined contribution.

the social insurance character is limited—persons with higher incomes pay higher contributions for, at a certain level, equal benefits. The risk sharing within statutory pensions is nationwide, and the protection of pension benefits is very high.

The classification of the various forms of pension accrual in Belgium, according to their intrinsic characteristics, allows us to evaluate the different reform proposals according to the type of pension accrual they promote.

Evaluation of Reform Proposals

When evaluating each proposal, I also briefly explain the type of reform (parametric or structural),[24] the aim (budgetary or social sustainability), and the cost bearer (government, employers, or employees).

Changing tax relief for occupational and individual pensions

Occupational and individual pensions in Belgium are strongly tax driven. A decrease in the tax relief for occupational and individual pensions is a parametric reform aimed to improve the budgetary sustainability of the Belgian pension system. If implemented, it would probably decrease the proportion of this kind of pension accrual within the Belgium pension system. An increase of the tax relief for occupational and individual pensions is a parametric reform aimed at improving the social sustainability of the pension system. It would probably increase the proportion of this type of pension accrual within the Belgium pension system.

As shown above, individual and occupational pensions are mainly based on the long-term savings and private insurance prototypes (except for the social industry-wide plans). A decrease or increase of individual and occupational pensions will respectively decrease or increase the proportion of long-term savings and private insurance within the Belgian pension system.

Increased retirement age

An increase of the retirement age can take place within statutory pensions, occupational pensions, and individual pensions. However, it will most likely occur primarily within statutory pensions. The increase in the retirement age can be achieved by increasing the legal retirement age or the career length required to obtain full benefits. Increasing the statutory retirement age is a parametric pension reform aimed at improving the budgetary sustainability of the pension system. This reform is at the expense of employees, civil servants, and the self-employed who, in one way or another, will have to work longer for the same statutory pension benefits or receive lower benefits.

Statutory pensions in Belgium are closest to the social security type of pension accrual. An increase in retirement age would mean that the proportion of this type of pension accrual within the Belgium pension system would decrease.

Increased minimum benefits of statutory pensions

An increase of the minimum benefits of statutory pensions (the GIE and minimum pension for employees and the self-employed) is a parametric pension reform aimed at improving the social sustainability of the pension system. Initially, this reform will be at the expense of the government, which will most probably recoup the increased expenditures from taxpayers or decrease other statutory pension benefits.

If the increase in minimum benefits of statutory pensions is compensated for by a decrease in other statutory pension benefits, the proportion of the social insurance type of pension accrual in Belgium would probably decrease in comparison with the social security type. If the increase is financed with increased taxes, the proportion of social insurance and social security types of pension accrual would increase.

Increased statutory pension benefits via a wealth tax

The Advisory Committee for the Pension Sector proposes an increase in statutory pensions by means of a wealth tax. The financing of statutory pensions by means of a wealth tax is a structural pension reform aimed at both the budgetary and social sustainability of the pension system. This reform is at the expense of the wealthiest citizens.

To the extent that the extra tax revenues are used to strengthen the statutory pension plans in Belgium, the proportion of social insurance and social security types of pension accrual would increase within the Belgian pension system.

THE IDEAL PENSION SYSTEM FOR BELGIUM

The Current Main Problem

The benefits of the statutory pension plans are considered too low for employees and the self-employed. Occupational pensions cover only 60 percent of employees, and the benefits are too low, except for higher income persons. Individual pensions cover 37 percent of Belgian residents (15–64 years old), and their total reserves amounted to 45.1 percent of GDP in 2007. This percentage is even higher if tax-driven investments in real estate are taken into account. The main problem of the Belgian pension system at present is not the total amount of investment in pension accrual. The main problem is the large proportion of investment in the long-term savings and private insurance prototypes. The degree of redistributive solidarity, the scope of risk sharing, and the protection of pension rights associated with these types of pension accrual are very low. As a consequence, groups with weak bargaining power (lower income workers, women, and those with atypical careers) are not covered or are inadequately covered. The question we have to ask, then, is which types of pension accrual do we want to promote in the future?

Pensions as Social Goods

In public economics, a distinction is made between three types of goods: public, private, and social. A public good is defined as a good that is non-rivaled and non-excludable. This means that consumption of the good by one individual does not reduce the amount of the good available for consumption by others and that no one can be effectively excluded from it (e.g., clean air, national defense, or public fireworks). A private good is the opposite of a public good. It is excludable, for example, to those who have not paid for it, and consumption by one consumer prevents simultaneous consumption by other consumers. A social good is a private good for which consumption is stimulated by the government for various reasons, including social policy. A government decides that individuals should have a particular social good based on a norm other than responding just to consumer preferences. This norm could be the public interest, common well-being, or general welfare. A social good would be under-consumed in a free market economy. Because of its positive externalities, the government stimulates consumption through social policy measures.[25] Pensions can be considered to be social goods insofar as they meet two conditions: 1) they have to show a certain degree of solidarity, risk sharing, and protection, and 2) they may not exceed a certain percentage of final salary.

The Ideal Pension System for Belgium

I have shown that individual and occupational pension plans in Belgium (except for social industry-wide plans) mainly show characteristics of long-term savings and private insurance. They lack the necessary degree of solidarity, risk sharing, and protection of pension rights to qualify as pensions. If these pension plans are to maintain their tax incentives, they need to integrate more features of social insurance, for example, mandatory payment of annuities instead of lump sums, continued pension accrual during periods of illness or unemployment, risk sharing at the branch of industry level, and protection of pension rights in case of bankruptcy of the pension provider. Moreover, once a certain accumulated sum of total pension provisions is reached,[26] no more tax incentives for individual and occupational pensions should be allowed. In an ideal pension system for Belgium, the statutory pensions would guarantee benefits of 60 percent of final salary. The individual and occupational pensions would cover the difference up to 75 percent of final salary. No tax incentives would be granted for pension provision above 75 percent of final salary. Individual and occupational pensions still would have an important role, but tax incentives would only be granted if minimum degrees of solidarity, risk sharing, and protection of pension rights are met.

Type of Welfare Regime

The underlying ideological matter with respect to the ideal pension system of a country is to what extent the government is responsible for the retirement income of individuals. Three different types of welfare regimes can be distinguished: the liberal, the conservative, and the social democratic (Esping-Andersen 1990). In the liberal welfare regime, the pension system increases inequality. The limits of welfare equal the marginal propensity to opt for welfare instead of work. Entitlement rules are strict and often associated with stigma. Benefits are modest. The government encourages the market, either by guaranteeing only a minimum benefit or by subsidizing private welfare plans. In the conservative welfare regime, the pension system preserves inequality. The redistributive impact of the pension system is negligible. Social insurance typically excludes nonworking wives. The principle of subsidiarity serves to emphasize that the government will only interfere when the family's capacity to service its members is exhausted. In the social democratic welfare regime, finally, the pension system decreases inequality. The government pursues an equality of the highest standards, not an equality of minimal needs. This implies, first, that services and benefits will be upgraded to levels commensurate with benefits of the middle classes. And, second, that equality is furnished by guaranteeing workers full participation in the quality of rights enjoyed by the better-off. The Belgian pension system clearly shows characteristics of the conservative regime. An ideal pension system for Belgium should show more characteristics of a social-democratic welfare regime.

Appendix 7A
Main Features of the Different Forms of Pension Accrual in Belgium

In this Appendix, I briefly evaluate the different forms of pension accrual in Belgium with respect to their degree of redistributive solidarity, risk sharing, and protection of pension rights. The different forms of pension accrual in Belgium are individual pension plans (pension saving and individual life insurance), occupational pension plans (defined benefit or defined contribution plans at the company level, defined contribution plans at the industry level, and social industry-wide defined contribution plans), and statutory pension plans (social security pensions and guaranteed income for the elderly). An overview of the evaluation is presented in Table 7A.1.

Individual Pension Plans

Pension saving in individual pension plans includes no redistributive solidarity, no risk sharing, and little protection of pension rights. In Belgium, the clear distinction between financial institutions and insurance companies or between long-term savings and private insurance has disappeared (specialists often speak of the "bancassurance" as the phenomenon where banks and insurance companies both offer products linked to savings and insurance). Consequently, pension saving in a bank is often linked to insurance products. A guaranteed investment return can be agreed upon. Moreover, the first €100,000 of pension savings in a bank account is covered by a state guarantee. Individual life insurance as a form of individual pension includes no redistributive solidarity with respect to old-age pension accrual. With respect to survivor's pensions, a redistribution based on probability-solidarity is present. Private insurance includes no risk-sharing whatsoever. With respect to the protection of pension rights, a guaranteed investment return is granted by contract (through the insurance mechanism), and pension benefits are paid at the date agreed upon in the insurance contract (early surrender of the policy may be possible).

Occupational Pension Plans

With respect to occupational pensions, defined contribution plans at the company level include no redistributive solidarity and no sharing of risks linked to longevity and inflation. The risks linked to financial markets and bankruptcy are shared at the company level. A medium protection of pension rights is present—there is a guaranteed investment return by law, liability of the sponsor in case of bankruptcy of the pension provider, and no payment of pension benefits before retirement age (early withdrawal of pension benefits is possible for the purchase or renovation of a plan member's own dwelling). Defined benefit plans at the company level include no redistributive solidarity with respect to old-age pensions. With respect to survivor's pensions, a redistribution based on risk solidarity is present (people with different risk profiles are pooled together in one group). The risk of longevity is not shared within defined benefit plans at the company level. The risks linked to inflation, financial markets, and bankruptcy of the pension provider are shared at the company level. As for defined contribution plans, a medium protection of pension rights is present (because the issue is not applicable to defined benefit plans, a guaranteed investment return is provided by law only for defined contribution plans). Industry-wide plans include no redistributive solidarity and no sharing of the risks linked to longevity and inflation. Risks linked to financial markets and bankruptcy are shared at the industry level. The same protection of pension rights applies for both defined benefit and defined contribution plans at the company level. The social industry-wide plans differ from standard industry-wide plans only with respect to their degree of redistributive solidarity. Membership in these plans is mandatory and people with different risk profiles are pooled together. In case of illness, employment, pregnancy, and other circumstances, pension accrual continues, and therefore, redistribution based on risk solidarity is present (for old-age and survivor's pensions).

Statutory Pension Plans

Social security pensions include income-solidarity, nationwide risk sharing, and full protection of pension rights. The difference between social security pensions and the GIE is the degree of reciprocity within the income solidarity. For the GIE there is no link between entitlement to benefits and payment of contributions in the past. For social security pensions, there is some proportional connection between the entitlement to benefits and the payment of contributions in the past.

Table 7A.1 Evaluation of the Different Forms of Pension Accrual in Belgium

Criteria to evaluate pension accrual			Individual pension plans: Pension saving	Individual pension plans: Individual life insurance	Occupational pension plans: Company plan (DC)	Occupational pension plans: Company plan (DB)	Occupational pension plans: Industry-wide plan (DC)	Occupational pension plans: Social industry-wide plan (DC)	Statutory pension plans: Social security pensions	Statutory pension plans: GIE[a]
Degree of redistributive solidarity	Old age pension	No redistributive solidarity	X	X	X	X	X			
		Probability-solidarity								
		Risk-solidarity						X		
		Income-solidarity (R)							X	
		Income-solidarity (NR)								X
	Survivors pension	No redistributive solidarity	X		X		X			
		Probability-solidarity		X						
		Risk-solidarity				X		X		
		Income-solidarity (R)							X	
Scope of risk taking	Longevity	No risk sharing	X	X	X	X	X	X		
		Company								
		Branch of industry								
		Nationwide							X	X

(continued)

Table 7A.1 (continued)

Criteria to evaluate pension accrual			Individual pension plans: Pension saving	Individual pension plans: Individual life insurance	Occupational pension plans: Company plan (DC)	Occupational pension plans: Company plan (DB)	Occupational pension plans: Industry-wide plan (DC)	Occupational pension plans: Social industry-wide plan (DC)	Statutory pension plans: Social security pensions	Statutory pension plans: GIE[a]
	Inflation	No risk sharing	X	X	X		X	X		
		Company				X				
		Branch of industry								
		Nationwide							X	X
	Financial risks	No risk sharing	X	X						
		Company			X	X				
		Branch of industry					X	X		
		Nationwide							X	X
	Bankruptcy of pension provider	No risk sharing	X	X						
		Company			X	X				
		Branch of industry					X	X		
		Nationwide							X	X
Protection of pension rights	Protection of investment returns	No guaranteed investment return	X							
		Guaranteed investment return by contract	X	X		X				
		Guaranteed investment return by law			X		X	X	X	X

Protection against bankruptcy of pension provider	No protection	X	X						
	Liability of the sponsor			X	X	X	X		
	Pension protection funds or state guarantee	X						X	X
Protection of the destination as pension	Payment of pension benefits as a lump sum at any moment in time	X							
	Payment of pension benefits as a lump sum on date in contract		X	X	X	X	X		
	Payment of pension benefits in the form of an annuity at pensionable age								
	Payment of pension benefits in the form of an annuity after retirement							X	X

NOTE: DB: defined benefit; DC: defined contribution; R: with a certain degree of reciprocity; NR: no reciprocity.
[a]There is no survivor's pension linked to the GIE.

Notes

1. For example, a single person who worked 35 years will receive an annuity equal to 35/45 × average (capped) earnings × 60 percent. A married person with a dependent spouse who worked 40 years will receive an annuity equal to 40/45 × average (capped) earnings × 75 percent. In 2008, the wage of 20.1 percent of full-time private sector employees was higher than the wage ceiling (Belgian Secretary of Pension 2010, p. 127).
2. It is possible to retire at the age of 60, provided the person had a minimum career length of 35 years. To stimulate employees to work until the age of 65, a pension bonus has been granted for each working day after the age of 62 or after a career of 44 years. After retirement a person may continue to work, although his or her pension may be adjusted (i.e., reduced) for earnings above certain levels.
3. The calculation of penalties in case of early retirement (before 65) and the absence of a minimum claim per year are examples of the differences. Legal retirement age, the pension bonus, price indexation, and the survivor's pension are similar to the employee plan.
4. Civil servants who have been declared permanently unfit to continue their careers, regardless of their age or seniority, are entitled to a disability pension.
5. New legislation has severely restricted internal funding via book reserves.
6. Belgium has an elaborate network of collective negotiation bodies. In labor matters, employee representatives and employer representative bodies meet at different levels to discuss collective measures. The National Labor Council supervises 200 joint committees, organized by industry type. Therefore, for the companies in a particular industry, there is a body of representatives of both employers and employees that meets to conclude binding collective bargaining agreements or more politically engaging social agreements.
7. According to the OECD, tax incentives for occupational pension plans cannot be preserved because they mainly benefit higher income workers, who have already enough savings for their retirement (OECD 2007, 2009).
8. The maximum statutory pension benefit for a single person who has been an employee during his entire career is €1,800 per month (€2,200 for married persons with a dependent spouse). The maximum is €1,000 per month for a single person who has been self-employed during his entire career (€1,200 for married self-employed persons with a dependent spouse).
9. The replacement rate is the fraction of previous salary that the statutory pension benefits replace. In order to calculate these rates, previous gross salary (or the average of the 5 last years of net income of self-employed) is compared with gross statutory pension benefits, including holiday pay and other supplements.
10. Industry-wide plans in Belgium are always defined contribution plans.
11. Insurance companies can purchase a state guarantee for the first €100,000 of individual pension reserves (Royal Decree of November 14, 2008).
12. Statutory pensions are embedded in the social security system. The social security contributions for the self-employed are capped. The self-employed pay a maxi-

mum of €3,664.49 per quarter (in 2009). This amount corresponds to 22 percent of the income up to €51,059.94 and 14.16 percent of the income above that up to the cap of €75,246.19. This system restricts redistributive solidarity because a self-employed person with a net income of, for example, €80,000 pays the same social security contributions as one with a net income of €300,000. Employees pay social security contributions on their entire salary.

13. About 80 percent of occupational pensions are managed by insurance companies and about 20 percent are managed by pension funds (Hannes 2009; Sommerijns and De Bilderling 2009).
14. These estimates are based on data from the Banking, Finance, and Insurance Commission. The accumulated reserves for voluntary pensions for the self-employed are very limited—they amounted to €28 million in 1996 and €72 million in 2000 (Gieselink et al. 2003).
15. Half of total spending goes to the employee plan (4.9 percent of GDP), and one-third goes to the civil servants plan (3.1 percent of GDP). The rest goes to disability pensions (0.8 percent of GDP), the self-employed plan (0.7 percent of GDP), pre-pensions (0.4 percent of GDP), and the GIE (0.1 percent of GDP).
16. This demographic evolution is mainly present in the Flemish region in Belgium.
17. The average retirement age is 59.5 years for men and 58.2 years for women.
18. Statutory pension contributions are calculated on the entire salary, whereas the benefits of statutory pensions are capped, taking into account a maximum salary of €47,282 (2009). The FEB proposes the introduction of more earnings-related benefits.
19. According to the FEB, one-third of statutory pension benefits are attributed without any social security contribution of the beneficiary.
20. Trade unions play a very important role in Belgium. Seventy-five percent of employees and civil servants are members of a trade union. The two major unions are the Christian trade union (CSC-ACV) and the Socialist trade union (FGTB-ABVV). The third major union is the Liberal trade union (ACLVB-CGSLB), which is much smaller. The pension reform proposal of each union can be found on their websites.
21. According to the trade unions, one reason for low pension benefits in Belgium lies in the indexation rules used to calculate initial benefits. In the Belgian benefit formula, wage histories are brought forward for averaging adjusted for prices rather than wage growth, the latter being the usual practice in most countries. This provision has the effect of gradually reducing per capita benefits relative to per capita wages over time.
22. According to the trade unions, only 2 percent of the employees with the lowest statutory pensions benefit from an occupational pension as compared to 36 percent of the employees with the highest statutory pensions.
23. A study at the University of Leuven, ordered by the Christian trade union, shows that the return or efficiency of statutory public pensions is higher than the return of occupational and individual pensions, as a result of the considerable administration costs of the latter (Pacolet and Strengs 2009).

24. Structural pension reforms are reforms that change essential features of the pension system, for example, the transformation from pay as you go to a funded plan, from defined benefit to defined contribution plans, or from average salary to final salary plans. Parametric pension reforms are reforms that change the value of certain parameters, for example, career length, minimum pension, or the defined benefit percentage. However, some parametric reforms lead to structural changes in the overall pension system. For example, the further development of occupational and individual pensions will also lead to a change in the proportion between funded and pay-as-you-go financing. Obviously, the weight of funded pensions would increase in this situation.
25. Musgrave (1957) introduced the concept of a merit good, but I prefer the notion social good, which is used here. According to Musgrave, different rationales can be found for the existence of merit goods. There may be more acceptance for income redistribution in the form of goods, rather than purchasing power. Consumption of merit goods needs to be stimulated because when consumed, a merit good creates positive externalities (there is a divergence between private benefit and public benefit and most consumers only take into account private benefit) and most individuals are short-term utility maximizers and so do not take into account the long-term benefits of consuming a merit good. Examples of merit goods include education, subsidized housing, and health care.
26. That is, an accumulated sum of statutory pension, occupational pension, and individual pension.

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