



- Consolidate the earnings-related schemes for private-sector, public-sector and self-employed workers, through a universal system uprating past wages with wage growth
- Introduce actuarial adjustments for early retirement

The mandatory pension scheme covering private-sector workers depends on average earnings and total accrual over the working life, and on family status. The normal retirement age will rise from 65 currently to 66 in 2025 and to 67 in 2030. Someone with a dependent spouse having limited own entitlements benefits from a total accrual rate, which is 25% larger than a single. Each year's earnings are taken into account and accrued entitlements are uprated with price inflation. Belgium is part of only four OECD countries having a pension system for public-sector workers that is totally separated from that for private-sector workers; for example, pensions for civil servants are based on the last 10 years of earnings. The self-employed contribute less to pensions than employees. In addition to mandatory pensions, around 60% of the Belgian working age population have funded occupational plans.

Key indicators: Belgium and OECD average

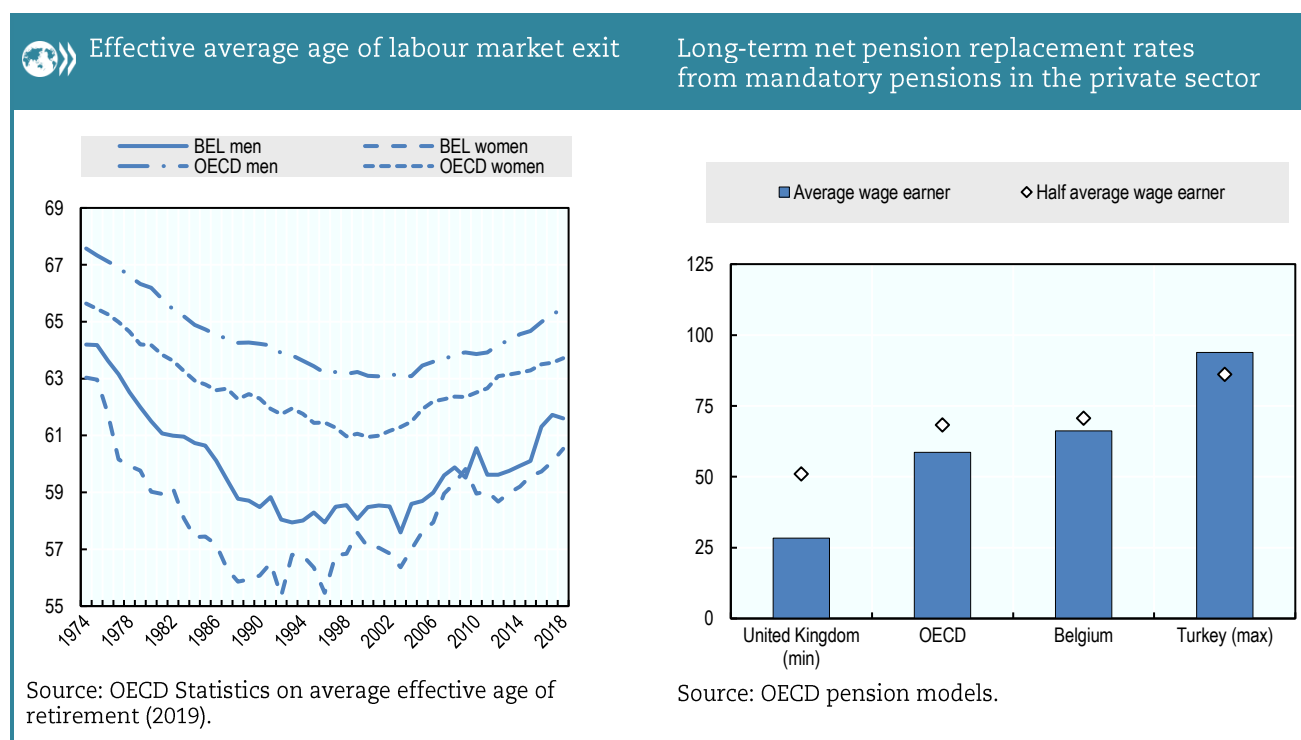
	Mid-1980s	Mid-1990s	Mid-2000s	latest available	latest OECD	long-term	long-term OECD
Normal retirement age for a full-time career starting at the age of 22	62 (60)	62 (60)	65 (63)	65.0	64.2 (63.5)	67.0	66.1 (65.7)
Statutory retirement age	62 (60)	62 (60)	65 (63)	65.0	64.5 (63.8)	67.0	66.5 (66)
Net replacement rate, average earner						66.2 (66.2)	58.6 (57.6)
Effective contribution rate (average earner)				16.4	18.4		
Total pension spending, % of GDP	9.6	10.5	10.2	12.0	10.0		
Public pension spending, % of GDP	9.2	9.2	9.0	11.0	8.4		
Public debt, % of GDP	131	153	109	119	80		
Employment rate 55-64, %	43.0 (10.3)	34.5 (12.7)	41.7 (22.1)	55.1 (45.6)	68.5 (54.8)		
Labour-market exit age	60.6 (57.5)	58.3 (56.4)	58.7 (57.6)	61.6 (60.5)	65.4 (63.7)		
Old-age poverty rate, %			15.9	8.2	13.5		
Life expectancy at 65, years	13.8 (18.0)	15.2 (19.4)	17.0 (20.6)	18.4 (21.6)	18.1 (21.3)	23.1 (25.5)	22.5 (25.2)
Old-age to working-age ratio	0.23	0.26	0.29	0.33	0.31	0.54	0.58
Fertility rate	1.6	1.6	1.8	1.7	1.7	1.8	1.7

Note. The figures for women appear in parenthesis where they differ from those for men.
 Long term: Around 2060 based on all legislated reforms up to mid-2019.

An overhaul of the pension system has been proposed since 2013, but no policy action has followed. The main recent parametric reform consisted in removing in 2019 the maximum time of accrual that used to be set at 45 years. In 2013, the Belgian government formed a committee of experts to enhance the social and financial sustainability of the system. In its final report, the committee proposed points schemes with automatic adjustments to improve the financial sustainability of the three sub-systems covering private-sector workers, the self-employed and civil servants. The points parameters would differ between the three sub-systems, but several proposals include the convergence between them in terms of full-career length, retirement age and automatic adjustments. Either the statutory retirement age or the point value would be linked to changes in life expectancy. Moreover, the schemes would include a minimum pension while arduous jobs would receive additional points. There has been some discussion on the implementation of the points systems and significant background work has been done. However, it would be up to the next government to restart and carry out this reform.

The Belgian pension system is complex and labour market exit ages are low. Those with low entitlements may benefit from the minimum pension, with benefit paid on a pro-rated basis to those who contributed for at least 30 years. In addition, a minimum annual credit is granted to pensioners having low past earnings during their working life, conditional on at least 15 years of contributions. Overall, Belgium has above average future replacement rates while the total contribution rate is below average. Average-wage workers entering at age 22 in 2018 and retiring at the normal retirement age after a full career will have a net replacement rate of 66% compared 59% for the OECD on average. For low-wage earners (half the average wage) the future replacement rate is slightly higher at 71% against 68% on average in the OECD. Even though the legal retirement age is 65 and rising, the average age of labour market exit was 61.6 for men and 60.5 for women in 2018. One important reason for early labour market exit is the lack of actuarial adjustments for early retirement. Early retirement without penalties is possible from age 63 subject to 42 years contributions, age 61 subject to 43 years of contributions or age 60 subject to 44 years of contributions. In addition, an earnings test limits the opportunity to combine an early pension with work. The fragmentation of the system discussed above adds to the complexity. Moreover, the price-uprating of past wages to compute pension entitlements in the pension formula makes both replacement rates and financial balances highly dependent on real-wage growth. Pension revenues through contributions evolve roughly in line with wages, while spending is less responsive and replacement rates more to real-wage growth. This is a serious weakness, because real-wage growth is mainly determined over time by productivity growth, which is a parameter that policy makers cannot easily influence and that cannot be easily forecast.

Efforts should focus on simplifying the system and keeping workers longer in the labour market.



Large efficiency gains may be generated by the integration of schemes covering different types of workers. This would reduce inequality, increase labour mobility and lower administrative costs over time. For example, a move to a universal points system would be a significant improvement, creating a clear link between pension contributions and benefits, thus enhancing incentives to stay in the labour market, and equalising contributions across all types of workers. The management of the system would also be improved by replacing the price uprating of past earnings to calculate entitlements with wage uprating. In addition, introducing actuarial adjustments to pension benefits for early retirement would help extend working lives and avoid that decisions to retire early are costly for the public purse.

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