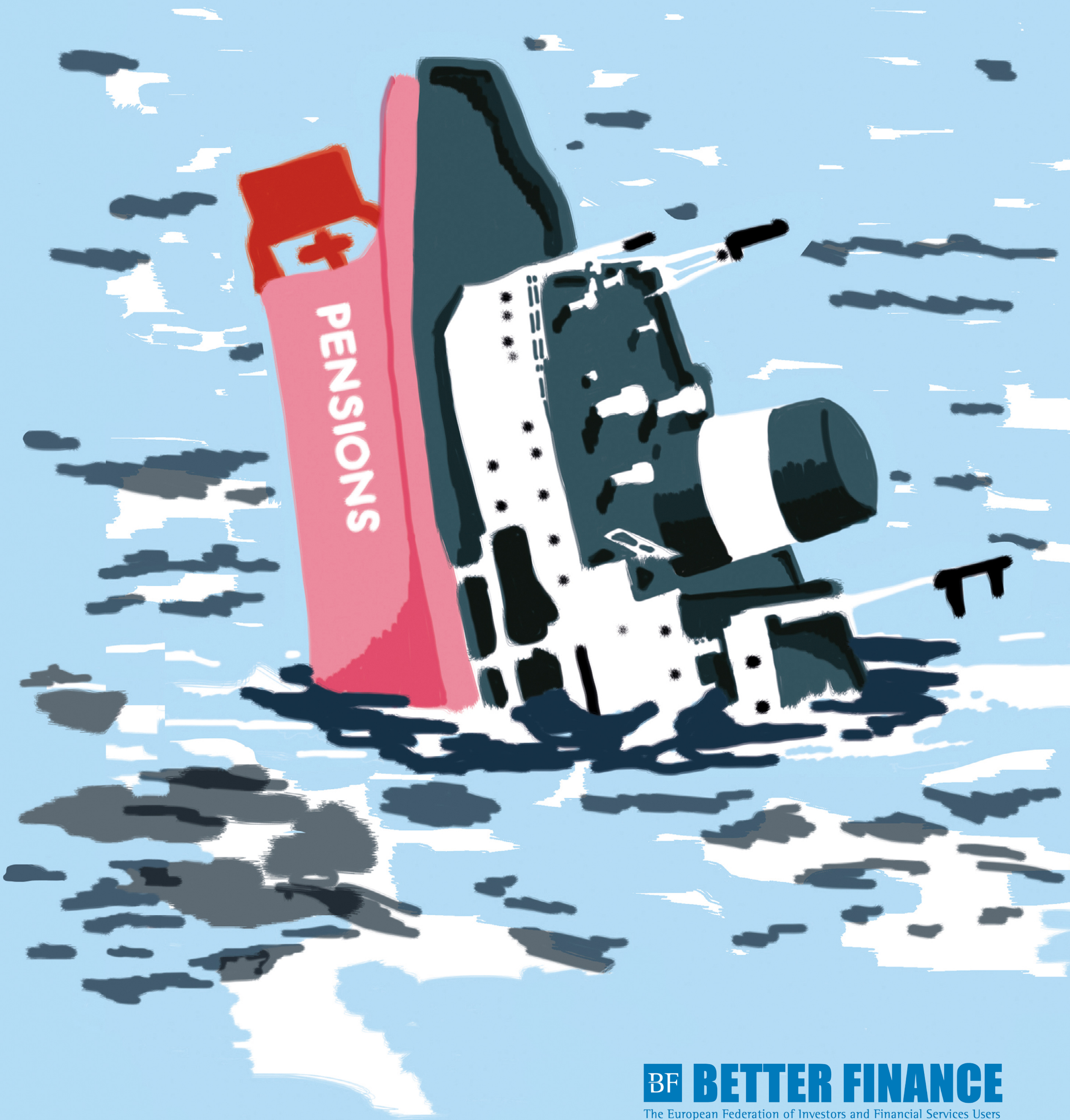
Long-Term and Pension Savings

The Real Return

2020 Edition



BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

Pension Savings: The Real Return
2020 Edition

A Research Report by BETTER FINANCE

COORDINATORS

Aleksandra Mączyńska
Ján Šebo
Ştefan Dragoş Voicu

CONTRIBUTORS

Edoardo Carlucci
Lubomir Christoff
Lars Christensen
Michaël Deinema
Laetitia Gabaut
Yordanka Popova
Lisbeth Grænge-Hansen
Johannes Hagen
José Antonio Herce
Arnaud Houdmont
Matis Joab
Michal Mešťan
Gregoire Naacke
Dayana Nacheva
Carlos Nava
Guillaume Prache
Joanna Rutecka-Góra
Dr. Thomas Url

REVIEWERS

Ján Šebo
Michal Mešťan
Ştefan Dragoş Voicu

Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	'Barclay's Pan-European High Yield Total Return' Index
CAC 40	'Cotation Assistée en Continu 40' Index
CMU	Capital Markets Union
DAX 30	'Deutsche Aktieindex 30' Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom's Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission's Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index
FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices
IBEX 35	Índice Bursátil Español 35 Index
IKZE	'Indywidualne konto zabezpieczenia emerytalnego' – Polish specific Individual pension savings account
IRA	United States specific Individual Retirement Account

IT	Italy
JPM	J&P Morgan Indices
KIID	Key Investor Information Document
LV	Latvia
NAV	Net Asset Value
Mln	Million
MSCI	Morgan Stanley Capital International Indices
NL	Netherlands
OECD	The Organisation for Economic Co-Operation and Development
OFT	United Kingdom's Office for Fair Trading
PAYG	Pay-As-You-Go Principle
PIP	Italian specific 'Individual Investment Plan'
PL	Poland
PRIIP(s)	Packaged Retail and Insurance-Based Investment Products
RO	Romania
S&P	Standard & Poor Indexes
SE	Sweden
SK	Slovakia
SME	Small and Medium-sized Enterprise
SPIVA Scorecard	Standard & Poor Dow Jones' Indices Research Report on Active Management performances
TEE	Tax-Exempt-Exempt Regime
TCR/TER	Total Cost Ratio/ Total Expense Ratio
UCITS	Undertakings for the Collective Investment of Transferable Securities
UK	United Kingdom

Country Case: Belgium

Sommaire

En Belgique, le système de retraite est constitué de trois piliers. Le premier pilier par répartition reste le plus important des trois piliers. Les retraités bénéficient d'un taux de remplacement moyen de 66.2% en 2018. Les piliers 2 et 3 représentent les pensions complémentaires professionnelles et individuelles basées sur les cotisations volontaires des individus. Le nombre d'individus couverts par les véhicules de placements dans ces deux piliers continue de croître rapidement. Respectivement 75% et 66% de la population active est couverte par ces deux piliers. Dans chacun de ces piliers, les véhicules de placements peuvent être soit un fonds géré par une IRP dans le pilier 2 ou une banque dans le pilier 3 ou soit un contrat d'assurance groupe dans le pilier 2 ou un contrat d'assurance vie individuelle dans le pilier 3.

Sur une période de 20 ans (2000-2020), les fonds de pension gérés par les IRP (pilier 2) et les fonds d'épargne retraite (pilier 3) ont eu un rendement réel annuel moyen après charges de 2,14% et 1,78% respectivement. Au sein du pilier 2, tous les fonds à contributions définies gérés par les IRP et tous les contrats d'assurance groupe Branche 21 doivent verser un rendement minimum garanti de 1,75% sur les cotisations des employeurs et des employées. Avec la baisse des rendements des obligations d'Etat à 10 ans, les sociétés d'assurance ont revu à la baisse le rendement minimum garanti offert sur les nouvelles cotisations versées sur les contrats d'assurance groupe Branche 21. Cependant, les sociétés d'assurance continuent de garantir les anciens rendements sur les cotisations passées jusqu'au départ à la retraite. Les provisions passées sont toujours rémunérées avec des rendements garantis oscillant entre 3.25% et 4.75%. En 2015, le rendement garanti moyen était légèrement supérieur à 3%. En raison, du manque d'informations publiques, il est plus difficile de fournir des informations sur les rendements des contrats d'assurance-vie individuels souscrits dans le cadre du pilier 3.

Summary

The Belgian pension system is divided into three pillars. The first PAYG pillar is still important among the three pillar and provides on average a replacement rate of 66.2% in 2018. Pillar II and Pillar III are both based on voluntary contributions. The number of individuals covered by pillar II and pillar III pension schemes continues to grow rapidly. Respectively 75% and 66% of the active population is covered by these pillars. In both pillar II and pillar III, pension schemes can take the form of a pension fund (managed by an IORP in pillar II and by a bank in pillar III) or can be an insurance contract ("Assurance Groupe" contracts in pillar II and individual life-insurance contracts in pillar III).

Over a 20-year period (2000-2020), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) had annualized real performance after charges of 2.14% and 1.78%

respectively. Within the pillar II, all Defined Contributions plans managed either by IORP and "Assurance Groupe "Branch 21 contracts are required to provide an annual minimum guaranteed return of 1.75% on both employee and employer contributions. With the decline in the return on the Belgian 10-year government bonds, insurance companies were forced to decrease the minimum guaranteed return offered to new contributions on "Assurance Groupe" Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on the past contributions until retirement. Past reserves continue to have guaranteed returns ranging from 3.25% to 4.75%. In 2015, the average guaranteed return was slightly above 3%. Due to a lack of information, it is more difficult to provide return information on individual life-insurance contracts subscribed in the framework of pillar III.

Introduction

The Belgian pension system is divided into three pillars:

Table BE1. Multi-pillar pension system in Belgium

PILLAR I	PILLAR II	PILLAR III
State Pension	Funded pension *The Supplementary Pension Law (the Vandenbroucke Law) implemented in 2003*	Voluntary pension
Federal Pension Service (SFP)	IORP and Insurance companies	Banks (pension savings fund) and Insurance companies (pension savings insurance and long-term savings plans)
Mandatory	Voluntary	Voluntary
Publicly managed	Privately managed pension funds and "Assurance Groupe contracts"	Privately managed pension funds and life-insurance contracts
PAYG	Funded	Funded
Earnings-related public scheme with a minimum pension	DB (Defined Benefits scheme) / DC (Defined Contribution scheme) Individual retirement accounts	
	Quick facts	
Number of old-age pensioners (as of 31st January 2019): 2,196,890	IORP: 196 Insurance Companies:28	Pension savings funds: 19 life insurance retirement savings product
Average old-age pension: €1,159	AuM: €107.7 bn	AuM: €55.2 bn
Average income (gross): €3,345	Participants: 3.759 million	Participants: 3.3 million
Men's average replacement ratio: 66.2%	Coverage ratio: 75%	Coverage ratio: 66%

Source: BETTER FINANCE own composition

First Pillar

The Belgian Pillar I is organised as a Pay-As-You-Go (PAYG) pension system consisting of three regimes: one for employees in the private sector, one for the self-employed individuals and one for civil servants. The legal retirement age is 65 for both women and men. It used to be 60 for women until 1993 but was progressively increased to reach 65 in 2010. The Act of 10 August 2015 increases the retirement age imposed by law to the age of 66 by 2025 and 67 by 2030. Pillar I pensions are PAYG systems based on career duration and income earned. A complete career equals to 45 working-years. The calculation of the retirement pension depends on the individual's status, his/her career and his/her salary earned throughout his/her career. The amounts can therefore vary greatly from person to person. A guaranteed minimum pension and a maximum pension have been fixed. A retiree with a complete career will receive at least a guaranteed minimum pension of €1,545.20 if he/she lives within a household or € 1,236.55 if he/she lives alone. In 2018, the net replacement rate from the PAYG system for both men and women (with an average working wage) was 66.2%.[64]

Second Pillar

Occupational pension plans are private and voluntary. This pillar exists for both employees and self-employed individuals. Employees can subscribe to occupational pension plans provided either by their employer (company pension plans) or by their sector of activity (sector pension plans). Company pension plans are traditionally dominant in the second pillar in comparison to sector pension plans. Self-employed individuals can decide for themselves to take part in supplementary pension plans.

An employer can set up a company pension plan for all its employees, for a group of employees or even for a single employee. In the case of sector pension plans, collective bargaining agreements (CBAs) set up the terms and conditions of pension coverage. Employers must join sector pension plans, unless labour agreements allow them to opt out. Employers who decide to opt out have the obligation to implement another plan providing benefits at least equal to those offered by the sector.

Company and sector pension plans can be considered as "social pension plans" when they offer a clause with solidarity benefits that provides employees with additional coverage for periods of inactivity (e.g. unemployment, maternity leave, illness). "Social pension plans" are becoming less and less prevalent, possibly as a result of the relatively high charges associated with these plans in comparison to pension plans without a solidarity clause.

Occupational pension plans are managed either by an Institution for Occupational Retirement Provision (IORP) or by an insurance company. Insurance companies predominantly manage them.

The Supplementary Pensions Act reform entered into force as of 1 January 2016. It amended the Act of 28 April 2003 by introducing the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030). Supplementary pension benefits will be paid at the same time as the legal pension's effective start. Previously, some occupational pension plans allowed early liquidation: lump sum payments or annuities from supplementary pension could be paid from the age of 60. Conversely, employees who decide to postpone their effective retirement when having

[64] OECD, Pension at Glance 2019 Country Profiles – Belgium https://www.oecd.org/els/public-pensions/PAG2019-country-profile-Belgium.pdf

reached the legal pension age, have the possibility to claim their supplementary pension or to continue to be affiliated to the pension scheme until their effective retirement.

Moreover, many supplementary pension plans provided financial compensations to offset the income loss employees may encounter when they end prematurely their career. As of January 1st, 20 16, all these existing beneficial anticipation measures were abolished. Affiliates who reached the age of 55 years on or before December 31, 2016 can still benefit from these existing measures. At the beginning of 2019, approximatively 3.76 million Belgians (75.1% of the active population) were covered by occupational pension plans:

- 3.182 million employees were covered either by their company or by their sector of activity;
- 361,973 self-employed individuals were covered by supplementary pension plans;
- 212,266 individuals were covered both by their company or by their sector of activity and by a supplementary pension plan dedicated to self-employed.[65]

Third Pillar

The third pillar's purpose is to provide Belgians with individual private and voluntary pension products, which allow them to have tax reliefs from their contributions. There are two types of available products for subscription: pension savings products managed either by asset management companies or by life insurance companies and long-term savings products managed by insurance companies. This pillar is significant in Belgium when compared to other EU member states. The tax rate applied to accrued benefits from pension savings products (funds or insurance) was lowered from 10% to 8% in 2015, in order to encourage savings in the framework of the third pillar.[66] The third pillar covered two thirds of the active population of Belgium in 2017, with 34% of workers subscribing to a life insurance retirement savings product (1.7 million Belgians) and 33% being covered by pension savings funds (1.6 million Belgians)[67].

The real net returns (before taxes) of the main retirement provision vehicles in Belgium are presented in the table below based on 5 recommended holding periods: 1 year (2019), 3 years (2017-2019), 7 years (2013-2019), 10 years (2010-2019), and since the earliest data available.

[65] Source: DB2P's website: https://www.db2p.be/nl/resources/f8b02861-4188-47c7-aca7-1a27c614c2ba/Kerncijfers%20db2p%202019_NL_OK.pdf
The DB2P manages the supplementary pensions database. It collects data related to supplementary pension plans such as individualised acquired pension rights of employees, self-employed individuals and civil servants.
[66] The lowering of the tax rate does not apply to long-term savings products.
[67] There is not more recent data for 2018 and 2019.

Summary Table - Real net returns of Belgian pension vehicles					
	Pillar II		Pillar III		
	IORP	"Assurance Groupe Branch 21"	Pension savings funds	Life Insurance Branch 21 contracts	Life Insurance Branch 23 contracts
2019	14.19%	na	14.30%	na	na
2017-2019	3.75%	na	2.49%	na	na
2013-2019	4.82%	na	4.62%	na	na
2010-2019	4.52%	na	3.62%	na	na
Since inception	Since 1985 (PensioPlus) 4.51%	2002-2014: 2.59%	1994-2019 (source BeAma): 6.56%	2002-2014: 1.99%	2002-2014: 1.64%

Pension Vehicles

Pillar II: Occupational pension plans

The second pillar refers to occupational pension plans designed to raise the replacement rate. Savings in these plans are encouraged by tax incentives. The second pillar is based on the capitalisation principle: pension amounts result from the capitalisation of contributions paid by the employer and/or employee in the plan or by self-employed individuals. There are three types of occupational pension plans in place:

- Company pension plans;
- Sector pension plans (CBAs);
- Supplementary pension plans for self-employed individuals (PLCIs).

In the following section devoted to occupational pension plans, the available data reported in Tables BE2 to BE5 were provided by the Financial Services and Markets Authority (FSMA), Assuraliaand the National Bank of Belgium (NBB).

The FSMA annually reports detailed information on Institutions for Occupational Retirement Provision (IORP, the EU law term for non-insurance regulated occupational pension products provider[68]). Every two years, the FSMA also reports detailed information on sector pension plans and supplementary pension plans for self-employed individuals. Information on "Assurance Groupe" contracts was reported by Assuralia (for Branch 21 contracts) and by the National Bank of Belgium (for Branch 23 contracts).

Management of occupational pension plans

The management of occupational pension plans can be entrusted to an Institution for Occupational Retirement Provision (IORP) or to an insurance company.

[68] Article 6(1) of Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (recast), O.J. L354/37.

Institutions for Occupational Retirement Provision (IORP)

IORPs are asset management companies set up with the sole purpose of providing occupational retirement savings products under the form of investment funds, which can either be directly invested, through tailor-made portfolios, or which can be linked to other funds' units (unit-linked).

FSMA reported the following data on IORP in 2018:

In 2018,196 occupational pension plans were managed by an IORP and the number of affiliates to IORPs increased to 1,788,873. This is mainly due to an increase in the number of individuals affiliated to IORP who operate cross-border activities (+12.6% between 2017 and 2018).

In 2018, affiliates to sector pension plans through IORPs still represented the largest part in the number of total affiliates (74%), whereas their reserves (€4.4 billion) represented only 12.8% of the total reserves. The number of affiliates to sector pension plans managed by IORPs continued to increase from 1,293,252 in 2017 to 1,328,463 in 2018.

Company pension plans managed by IORPs represented 78% of total reserves (€26.8 billion) with 23% of affiliates.

Three supplementary pension plans for self-employed individuals (€2 billion of reserves) were managed by IORPs.

Based on the amount of reserves managed out of the total in Pillar II, IORPs had a market share of 29%, the rest being managed by insurance companies through Branch 21 and Branch 23 contracts, described below.

"Assurance Groupe" (Branch 21 and Branch 23 contracts)

Occupational pension plans are predominantly managed by insurance companies. Such pension plans are called "*Assurance Groupe*" contracts and can be divided into two different types of contracts:

- "Branch 21 contracts" are occupational plans, offering a guaranteed return on contributions made by employers and employees (1.75% since January 1st, 2016). The insurance companies who provide these contracts bear the risk and pay the guaranteed return in addition to a profit-sharing. All sector pension plans and all supplementary pension plans for self-employed individuals managed by insurance companies take the form of "Branch 21 contracts". Most of company pension plans are also managed through "Branch 21 contracts" rather than "Branch 23 contracts".
- "Branch 23 contracts" are unit-linked contracts and are invested mainly in investment funds and equity markets. Insurance companies do not offer a guaranteed return on contributions made into the plan. Their total returns depend on their portfolio composition. However, affiliates to "Branch 23 contracts" benefits from the legal minimum guaranteed return which is 1.75% since January 1st 2016. In case of a shortfall on the individual account when paying a benefit or a transfer of reserves, the employer has to pay the difference. This kind of occupational plans are riskier for employers who bear the risk and are generally costlier.

In the second pillar, company pension plans and some PLCI are managed through Branch 23 contracts. PLCI managed through Branch 23 contract represent a small part in 2017 (less then €0.5

million euros). All Branch 23 contracts accumulated €3.7 billion in reserves in 2018, representing 4.8% of the total reserves managed within "Assurance Groupe" contracts (see Table BE2)[69]

Table BE2. Total reserves managed in pillar II in (€ billion)					
	IORP (1)	"Assurance Groupe": Branch 21 contracts (2)	"Assurance Groupe": Branch 23 contracts (3)	Total "Assurance Groupe"(2) +(3)	Total (1)+(2)+(3)
2004	11.7	29.9	na	na	**41.6**
2005	13.4	30.6	1.6	32.2	**45.6**
2006	14.3	33.5	1.7	35.2	**49.5**
2007	14.9	37.3	1.7	39.0	**53.9**
2008	11.1	38.2	1.4	39.6	**50.7**
2009	11.2	41.2	1.8	43.0	**54.2**
2010	13.9	44.7	1.8	46.5	**60.4**
2011	14.0	48.6	1.6	50.2	**64.2**
2012	16.4	52.3	1.7	54.0	**70.4**
2013	18.0	56.7	1.9	58.6	**76.6**
2014	20.7	60.1	2.1	62.2	**82.9**
2015	21.9	64.2	2.1	66.3	**88.2**
2016	26.8	67.4	2.4	69.8	**96.6**
2017	32.0	70.3	3.2	73.5	**105.5**
2018	31.4	72.6	3.7	76.3	**107.7**
Sources: Assuralia, BNB, BETTER FINANCE research, FSMA					

Description of occupational pension plans

The following section provides information and figures for the different occupational pension plans within Pillar II in Belgium: sector pension plans, private supplementary pensions for self-employed individuals (PLCI) and company pension plans. For the whole-year 2018, only information for occupational pension plans managed by IORP is available. Information regarding the breackdown of occupational pension plans managed by insurance companies through Branch 21 and Branch 23 contracts ("Assurance Groupe" contracts) is not available[70].

Sector pension plans[71]

Sector pension plans are supplementary pension commitments set up on the basis of collective bargaining agreements and concluded by a joint committee or joint sub-committee. In the joint committee/sub-committee, a sectorial organiser responsible for the pension commitment is appointed. There are 50 joint committee in 2017.

In 2017, the total reserves managed by sector pension plans represented 6.8% of the total reserves within Pillar II. Reserves are mainly managed by IORPs decreased in 2018 and amounted to €4.4 billion.

[69] Table BE2 represents reserves managed only within the second pillar. Data does not include the insurance dedicated to managing directors that represented around €5.8 billion of assets under management in 2018.
[70] FSMA reports on sector pension and PLCI are published every two years. The next edition of these reports will be published in mid-2021.
[71] All data provided comes from plans for which information is available.

This amount represents 14% of total reserves managed by IORPs within the second pillar in 2018. Reserves of sector pension plans managed by insurance companies through Branch 21 contracts are less important. In 2017, they represented €2.1 billion of reserves, being around 3% of the total reserves managed through "Branch 21 contracts" within the second pillar in 2017[72].

Table BE3. Total reserves in sector pension plans (€ billion) [73]

	IORP	"Assurance Groupe" (Branch 21)	Total
2005	0.4	0.1	**0.6**
2007	1.4	0.7	**2.1**
2009	1.5	0.8	**2.3**
2010	1.6	0.9	**2.6**
2011	2.0	1.1	**3.1**
2012	2.5	1.3	**3.8**
2013	2.7	1.5	**4.3**
2014	2.5	1.6	**4.1**
2015	3.4	1.9	**5.3**
2016	5.3	1.8	**7.1**
2017	5.0	2.1	**7.2**
2018	4.4	na	**na**

Source: FSMA

Private Supplementary Pensions for self-employed individuals (PLCI)

In 2004, *Pension Libre Complémentaire pour Indépendants* (PLCI) – Private Supplementary Pensions for self-employed individuals – were integrated into the Supplementary Pensions Act. PLCI enable self-employed individuals to get a supplementary and/or a survival pension at their retirement.

Since 2004, self-employed individuals have the choice to contribute to supplementary pension plans. Moreover, they can henceforth choose the pension provider, either an IORP or an insurance company. They can switch from one provider to another during the accumulation period. At January 1st, 2018, self-employed individuals had the choice between PLCI conventions managed by 3 IORPs and 19 insurance companies.

At January 1st, 2018, 476,022 self-employed individuals were covered by a PLCI convention. This number increased by 6% over the period 2016-2018. 46% of self-employed individuals were covered by a PLCI convention.

Self-employed individuals can also supplement their PLCI with several solidarity benefits, called social conventions (INAMI convention). 66,504 self-employed individuals were affiliated to PLCI with a social convention at January 1st, 2018. These conventions offer benefits such as the funding of the PLCI in the case of inactivity and/or the payment of an annuity in the case of income loss.

[72] There is no available data for 2018. This information is provided by FSMA every two years in bi-annual report on sectorial pension plans. The next publication regarding 2018 data will be published in 2021.
[73] Data for 2006 and 2008 was not available.

Self-employed individuals can save up to 8.17% of their income, without exceeding a maximum annually indexed amount (€3,256.87 in 2019). These ceilings can be increased up to 9.40% and €3,747.19 when a social convention is subscribed.

Contrary to sector pension plans, private supplementary pensions for self-employed individuals are predominantly managed by insurance companies trough Branch 21 contracts. Most of insurance companies offer contracts with social convention. In 2017, the contributions to PLCI convention reached €807 millions. It represented an increase of 10.6% when compared to 2015 (€730 millions). 90% of contributions were transferred to PLCI conventions managed by insurance companies and 10% were transferred to IORP.

Table BE4. Total reserves managed in PLCI conventions (€ billion)

	IORP	"Assurance Groupe" (Branch 21 & Branch 23)	Total
2006	na	na	**2.9**
2007	na	na	**3.3**
2008	na	na	**3.5**
2009	1.6	2.4	**4.0**
2010	1.7	2.8	**4.5**
2011	1.4	3.7	**5.1**
2012	1.6	4.1	**5.7**
2013	1.6	4.6	**6.2**
2014	1.7	5.1	**6.8**
2015	2.0	5.7	**7.7**
2016	2.1	6.3	**8.4**
2017	2.1	6.8	**8.9**
2018	2.0	na	**na**

Sources: FSMA, BETTER FINANCE calculations

Company pension plans

Company pension plans are prevalent within the second pillar. However, there is no aggregated and publicly available information on this type of plan. Company pension plan reserves managed by IORPs and insurance companies ("Assurance Groupe" contracts) are assessed from data based on Tables BE2, BE3 and BE4.

Table BE5. Total reserves managed in company pension schemes (€ billion)					
	IORP (1)	"Assurance Groupe": Branch 21 contracts (2)	"Assurance Groupe": Branch 23 contracts (3)	Total "Assurance Groupe" (2)+(3)	Total (1)+(2)+(3)
2009	8.1	38.0	1.8	39.8	**47.9**
2010	10.6	41.0	1.8	42.8	**53.4**
2011	10.6	43.9	1.6	45.5	**56.0**
2012	12.3	46.9	1.7	48.6	**61.0**
2013	13.7	50.6	1.9	52.5	**66.2**
2014	16.5	53.4	2.1	55.5	**72.0**
2015	16.5	58.5	2.1	60.6	**77.1**
2016	19.4	61.1	2.4	63.5	**82.9**
2017	24.9	63.5	3.2	66.7	**91.6**
2018	25.0	na	3.7	na	**na**

Source: "Assuralia", BNB, BETTER FINANCE research, FSMA

Pillar III: Description of personal pension savings products

Pillar III refers to private pension plans contracted on an individual and voluntary basis. The Belgian market for personal pension plans is divided into two types of products:

1. Pension savings products, which can take two different status:
    - A pension savings fund;
    - A pension savings insurance (through individual Branch 21 contracts).
2. Long-term savings products, which consist mainly of a combination of Branch 21 and Branch 23 contracts.

Belgians can benefit from a tax relief based on their contributions made to pension savings products or long-term savings products. Upon retirement, individuals are free to choose how to liquidate the products: lump sum payment, periodic annuities or life annuity from invested benefits.

In 2019, 1,674,676-million Belgians saved through pension savings funds[74]. This number number increased by 4.3% over a year. When adding up pension savings insurance contracts and long-term savings products, 2 out of 3 Belgians in the active population is covered by pension plans within the third pillar.

Pension savings funds

The Belgian pension savings funds market remains relatively concentrated since the launch of the first funds in 1987. The market has grown significantly in the past few years. 19 products were available for subscription at end-2019.

[74] Chiffres secteur OPC 4ème trimestre 2019, BEAMA, May 20th, 2020.

Table BE6. Net assets under management in pension savings funds (€ billion)	
2003	7.4
2004	8.7
2005	10.3
2006	11.5
2007	11.8
2008	9.0
2009	11.1
2010	12.0
2011	11.2
2012	12.6
2013	14.4
2014	15.6
2015	16.9
2016	18.0
2017	19.6
2018	18.2
2019	**21.3**

Source: BeAMA

Pension savings funds are constrained by quantitative limits applied to their investments:

- A maximum of 75% in equity;
- A maximum of 75% in bonds;
- A maximum of 10% in euros or any currency of a country of the European Economic Area cash deposits;
- A maximum of 20% in foreign currency deposits;
- A maximum of 30% in equities from companies whose Market Capitalisation is less than or equal to €3 billion euros.

In practice, the majority of funds are predominantly exposed to the equity market. Their return is entirely variable and depends on the returns of the underlying assets and fee policy applied.

Pension savings insurance / Long-term savings products

Belgians can save for their retirement through life insurance products within two different frameworks: a pension savings insurance product (Branch 21 contracts) or a long-term savings product (Branch 21 and Branch 23 contracts combined). Assuralia reports annual statistics on contributions and reserves managed in individual life insurance products. Data for the whole year 2019 are unfortunately missing and will be published only by the end of 2020.

Assuralia also reports data on contributions and reserves managed through pension savings insurance and long-term savings products within the third pillar. In 2018, reserves managed within the framework of the third pillar represented 23.1% of total individual life-insurance reserves. For long-term savings products, there is no available information on the breakdown between Branch 21 and Branch 23 contracts (see Table BE7).

Table BE7. Contributions and reserves in individual life-insurance products within the third pillar in 2018 (€ billion)

	Contributions	Reserves	Pillar III reserves in % of total individual life insurance reserves
Pension savings insurance (Branch 21 contracts)	1.11	15.602	11.36%
Long-term savings products (Branch 21 and Branch 23 contracts combined)	1.07	16.092	11.72%
Total	2.17	31.69	23.08%

Source: "Assuralia"

Charges

Pillar II: Occupational pension plans

Charges in IORPs

There is no general data or available information on IORP charges. The only available information was for sector pension funds managed by IORPs[75]: operating expenses ranged from 0.01% to 0.69% of assets, with an average of 0.13% in 2017 (0.15% in 2015 and 0.16% in 2013).

Company pension funds managed by IORPs are smaller than sector pension funds and they are, therefore, likely to be costlier.

Charges in "Assurance Groupe" (Branch 21 contracts)

The only historical information on administration and management costs as well as commissions on a yearly basis was for "Assurance Groupe" contracts (Branch 21), reported by "Assuralia".

[75] Source: FSMA, Report on sector pensions plans, August 2019. There is no more recent data as the next report on sector pensions plans regarding data on 2019 will be published in 2021.

Table BE8. Charges in % of reserves in "Assurance Groupe" contracts		
	Administrative & management costs (% of reserves)	Commissions (% of premiums)
2002	1.2	1.2
2003	1.0	1.3
2004	0.8	1.2
2005	0.9	1.4
2006	0.9	1.2
2007	0.8	1.4
2008	0.8	1.5
2009	0.8	1.3
2010	0.7	1.5
2011	0.7	1.5
2012	0.7	1.5
2013	0.7	1.5
2014	0.7	1.6
2015	0.6	1.6
2016	0.6	1.6
2017	0.6	1.8
2018	0.6	1.4
Source: "Assuralia", own calculations		

Many insurance companies apply fees on premiums. In the case of sector pension plans, the level of fees varies considerably, ranging from 0.5% to 8% of premiums in 2017. Half of the plans managed by insurance companies levied charges lower than 2% of premiums in 2017 (as in 2013 and 2015). The level of fees was below 1% for 13% of plans. Nevertheless, 18% of plans applied charges above 5% of premiums[76].

In Branch 23 Group Insurances ("Assurance Groupe"), charges can be higher: in addition to contract fees other fees related to underlying "units" (typically investment funds) may apply. For more details, the reader can refer to the case analysis in the annex.

Pillar III: Personal pension savings products

Pension savings funds

Historical data on charges for pension savings funds is difficult to obtain for investors. Key Investor Information Documents (KID) must provide investors with information on all charges related to the funds on a yearly basis, but for UCITS only, not for other investment funds.

Using the prospectus of available pension savings funds for subscription in the Belgian market, the following average yearly charges were calculated in 2019:

- Entry fees: 2.37% of initial investment;
- Management fees: 0.95% of total assets under management;
- Total Expenses Ratio represented on average 1.29% of total assets under management;
- No exit fees.

[76] Source: FSMA, Report on sector pensions plans, August 2019.

The following table summarises the Total Expenses Ratio (TER) of 19 available funds for subscription in the Belgium market from 2015 to 2019. The average TER remain relatively stable in 2019 when compared to 2018.

Table BE9. Historical Total Expense Ratio from 2015 to 2019 (% of assets under management)

	2015	2016	2017	2018	2019
VDK Pension Fund (Accent Pension Fund)	1.31	1.31	1.29	1.29	1.28
Argenta Pension Fund (ARPE)	1.34	1.34	1.34	1.32	1.32
Argenta Defensive Pension Fund	1.35	1.35	1.33	1.33	1.32
Belfius Pension Fund Balanced Plus	1.32	1.32	1.32	1.39	1.39
Belfius Pension Fund High Equities Cap	1.60	1.16	1.16	1.31	1.36
Belfius Pension Fund Low Equities Cap	1.63	1.61	1.61	1.17	1.19
BNP Paribas B Pension Balanced	1.25	1.25	1.24	1.24	1.24
BNP Paribas B Pension Growth	1.26	1.25	1.25	1.24	1.24
BNP Paribas B Pension Stability F Cap	1.25	1.25	1.24	1.24	1.24
Hermes Pension funds	1.07	1.07	1.06	1.06	1.04
Interbeurs Hermes Pensioenfonds	1.03	1.03	1.03	1.03	1.70
Metropolitan-Rentastro Growth	1.26	1.25	1.24	1.23	1.24
Pricos	1.25	1.25	1.24	1.16	1.20
Pricos Defensive	1.25	1.24	1.24	1.15	1.19
Pricos SRI	-	-	-	1.37	1.31
Star Fund	1.17	1.18	1.18	1.16	1.17
Crelan pension funds Stability	1.29	1.29	1.29	1.27	1.28
Crelan pension funds Growth	1.29	1.29	1.29	1.27	1.28
Crelan pension funds Balanced	1.29	1.29	1.29	1.27	1.28
Total Expenses Ratio, Average (simple)	**1.29**	**1.27**	**1.24**	**1.29**	**1.28**

Source: Assuralia, own composition

In 2018, KBC launched a new savings pension fund: PRICOS SRI. This fund is the first savings pension fund to comply with strict sustainability criteria defined by the Belgium Asset Management Association (BeAma)[77]. This fund invests with a "best in-class" strategy, i.e. in companies that meet the highest score in different criteria (environment, social impact, corporate governance).

Pension savings insurance (Branch 21 contracts) / Long-term savings products (Branch 21 and Branch 23 contracts combined)

"Assuralia" provides us with historical data on administration and management costs as well as entry fees and other commissions paid for individual life insurance contracts. Data, for Branch 23 individual life insurance contracts, most likely do not include fees charged on the underlying units (investment funds).[78]

[77] BeAma published a methodology guide on the SRI UCITs in 2013. http://www.beama.be/fr/duurzame-icbs-fr/beama-isrd-methodologie/view

[78] The reader can refer to the case analysis in the annex.

Table BE10. Administration and management costs and commissions for individual insurance caompanies (%)				
	Branch 21		Branch 23	
	Administrative and management costs (% of reserves)	Commissions (% of premiums)	Administrative and management costs (% of reserves)	Commissions (% of premiums)
2002	1.2	4.8	na	2.5
2003	1.8	3.7	na	3.0
2004	1.4	3.6	na	2.7
2005	0.7	3.3	0.3	2.0
2006	0.7	4.7	0.3	3.4
2007	0.6	4.6	0.3	4.2
2008	0.7	5.4	0.4	5.4
2009	0.6	5.8	0.3	5.6
2010	0.5	5.7	0.3	4.8
2011	0.5	6.0	0.3	4.6
2012	0.5	6.6	0.3	2.9
2013	0.6	8.8	0.3	4.8
2014	0.6	7.8	0.4	5.2
2015	0.5	9.1	0.4	4.9
2016	0.5	8.0	0.4	5.7
2017	0.6	8.8	0.4	5.4
2018	0.6	8.4	0.4	5.4
Source: “Assuralia”, BETTER FINANCE calculations				

Taxation

Pillar II: Occupational pension plans

Regarding the second pillar in Belgium, the tax regime for the whole saving period is an EET model. Employees are not taxed during the first two phases that constitute the process of saving via a pension scheme: contribution and accrued interests are not taxed. Employees are taxed during the third phase on the benefits’ payment.

Employees pay two taxes on their benefits:

- A solidarity contribution varying up to a maximum of 2% of the benefits depending on the retiree’s income;
- An INAMI (“Institut National d’Assurance Maladie-Invalidité”) contribution of 3.55% of the benefits.

In addition, benefits from occupational pension plans are taxed depending on how they are paid out:

- A lump sum payment;
- Periodic annuities;
- A life annuity issued from invested benefits.

Lump sum payment

In the case of a lump sum payment, the taxation of benefits depends on the beneficiary's age and who contributed to the plans (employer or employee). Since July 2013, the rules detailed in Table BE11 are applied to taxation on benefits from occupational pension plans. Before July 2013, benefits from employer's contributions were taxed at the flat rate of 16.5% regardless the beneficiary's age at the time of the payment of the benefits.

Table BE11. Taxation of benefits from occupational pension plans

Benefits paid before the legal pension		Benefits paid at the same time as the legal pension	
Benefits from employee's contribution	Benefits from employer's contributions	Benefits from employee's contribution	Benefits from employer's contributions
16.5% for contributions made before 1993	60 years old: 20%	16.5% for contributions made before 1993	10% if the employee remains employed until legal pension age (65 years old)
10% for contributions made since 1993	61 years old: 18%	10% for contributions made since 1993	
	62-64 years old: 16.5%		
+ local tax	+ local tax	+ local tax	+ local tax

Source: "Assuralia", Wikifin.be

The local tax can vary from 0% to 10%, with an average of 7%.

Periodic annuities[79]

Periodic annuities are considered to be an income and are taxed at the applicable progressive personal income tax rate.

Converting the accumulated capital into a life annuity

An employee can convert the lump sum payment into a life annuity. In this case, the INAMI contribution and the solidarity contribution have to be paid according to the rules applied to the lump sum payment. Then the retiree has to pay a withholding tax of 15% on the annuity each year.

Pillar III: Personal pension savings products

Regarding the third pillar in Belgium, the tax regime for the whole saving period is an EET model with a limited ceiling on contributions during the first phase for pension savings products and with a limited ceiling on the maximum tax benefit depending on the level of the saver's yearly earnings for long-term savings products.

[79] For pillar II, employees can choose to redeem capital in a lump sum payment or in annuities. In practice, few people choose annuities and most employees redeem their product in a lump sum payment.

Pension savings products (fund or life insurance contracts)

➢ Tax relief on contributions during the accumulation phase

Contributions invested in pension savings products (fund or insurance) are deductible from the income tax. Individuals can make contributions into pension savings products up to a rather low annual ceiling (€990 in 2020). Since 2012 and until 2018, a tax relief rate equal to 30% of the contributions was applied, regardless of the taxpayer's income.

In 2018, in order to further promote the third pillar and contributions to pension savings products (fund or life-insurance contracts), a new tax relief system was introduced. Two tax relief systems now co-exist and the amount of the individual contribution determines the tax relief:

- For any contribution less or equal to €990, individuals can still benefit from a 30% tax relief rate. This may result in a maximum tax relief of €297 per year.
- If the individual chooses to make a contribution above €1,270 and informs the provider of the product, he / she can benefit from a tax relief rate equal to 25%. The maximum contribution cannot exceed €1,270, with a maximum tax-relief of €317,5.

The tax relief of pension savings products is "stand-alone". Taxpayers can claim tax relief for only one contract even if they make contributions to several products.

➢ Final taxation on the accumulated pension rights

Since 1 January 2015, the final taxation on the accumulated capital was lowered from 10% to 8% and still depends on the beneficiary's age at the time of the subscription. From 2015 onwards, a part of the taxation is levied in advance (except in case of early retirement before the age of 60). From 2015 to 2019, the pension reserves (per 31 December 2014) are subject to a tax of 1% each year, which constitutes an advance on the final tax due.

Table BE12. Taxation of pension savings products (funds and insurance)	
Subscription to pension savings products before the age of 55	
Benefits paid before the age of 60	The accumulated capital is taxed under the personal income tax system.
At the age of 60	8% of the accumulated capital is levied (excluding participation to annual earnings); The taxation is based on a theoretical return of 4.75%; The saver can continue investing and enjoying tax relief until the age of 64; The accumulated capital is no longer taxed after the 60th birthday of the beneficiary.
Subscription to pension savings products at the age of 55 or after	
Benefits paid before the age of 60	The accumulated capital is taxed under the personal income tax system.
Benefits paid between the age of 60 and 64	The accumulated capital is taxed at the rate of 33%.
At the age of 65 or after (i.e. when the contract reaches its 10th birthday)	8% of the accumulated capital is levied (excluding participation to annual earnings); The taxation is based on a theoretical return of 4.75%; To benefit from this lower taxation, the beneficiary has to stay at least 10 years in the fund and make at least five contributions.

Sources: "Assuralia", Wikifin.be

Long-term savings products (life insurance contracts)

The maximum amount of tax relief based on contributions invested in long-term savings products depends on the level of the saver's yearly earnings, without exceeding the ceiling of €2,390 in 2020. However, the tax relief is determined jointly for long-term savings products and mortgage deductions. If a saver already receives a tax relief for a mortgage, it may be impossible to obtain a further tax relief for life insurance products under the third pillar.

The same rules of taxation to that of pension savings products (fund or insurance) apply to long-term savings products. The taxation depends on the beneficiary's age at the time of subscription (before or after 55) (see Table BE12).

However, the taxation differs in two points:

- The pension reserves are taxed by considering the real return of the long-term savings products over the period of holdings instead of a theoretical return of 4.75%;
- The lowering of the tax rate to 8% does not apply to the capital accumulated through long-term savings products, which remain taxed at 10%.

Pension Returns

Pillar II: Occupational pension plans

The returns of occupational pension plans depend on how they are managed, either by an IORP or by an insurance company. From 2004 to 2015, all DC plans managed either by IORP or insurance companies through Branch 21 contracts were required to provide an annual minimum return of 3.75% on employees' contributions and 3.25% on employers' contributions. The Supplementary Pensions Act reform entered into force as of 1 January 2016, in order to ensure the sustainability and social character of the supplementary pensions. The level of the minimum guaranteed return for both employer and employee contribution is set each year according to economic rules considering the evolution of government bond yields in the future:

- the new guaranteed return must be within the range of 1.75% to 3.75%;
- the new guaranteed return represents 65% of the average of 10-year government bonds rates over 24 months, rounded to the nearest 25 basis points to prevent it from fluctuating too frequently.[80]

In addition, the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030) affects the minimum guaranteed return offered to employees. When the affiliate reaches the age of 60, his/her occupational pension plan is extended until he/she reaches the age of 65. During the extension period, the minimum guaranteed return continues to be applied to reserves. Its level corresponds to the new effective minimum guaranteed return that will be recalculated and published each year by FSMA. In 2020, the legal minimum guaranteed return remained steady at 1.75%.

In the following sub-sections, the real returns after taxation of occupational pension plans were calculated under the hereunder assumptions:

- The employee claims his supplementary pension at the same time as the legal pension and remains employed until the legal age (65 years old);
- The benefits are paid as a lump sum payment;
- Solidarity contributions of 2% of benefits and the INAMI contribution of 3.55% of benefits are levied;
- Only the employer´s contributions were paid;
- In addition to an average local tax of 7%, a flat tax rate of 10% is applied to the final benefits.

Occupational pension plans managed by IORPs

In 2018, among the 196 pension plans managed by an IORP, 168 had a promise of returns (DB plans) or were hybrid plans (Cash Balance, DC + rate), 28 were DC plans. While newly opened plans are always DC plans, a large part of assets are still managed in plans offering promises of returns.

[80] The rate of 65% could be increased to 75% in 2018 and to 85% in 2020 according to the FSMA decision.

PensioPlus, Belgium's occupational pension plans association reported an average return of 16.11% in 2019. This represents the gross average weighted returns after charges of occupational pension plans that participated in the annual financial and economic survey of PensioPlus in 2019.[81]

Table BE13. Nominal and Real Returns of occupational pension plans managed by IORPs (%)

Year	Gross returns	Nominal return after charges, before inflation and taxes	Real return after charges and inflation and before taxes
2000	0.92	-0.07	-2.96
2001	-4.18	-5.12	-6.91
2002	-11.05	-11.92	-13.08
2003	10.37	9.29	7.53
2004	9.85	8.93	6.78
2005	16.04	14.96	11.87
2006	10.26	9.27	7.05
2007	2.21	1.39	-1.67
2008	-17.06	-17.72	-19.88
2009	16.58	15.69	15.31
2010	10.28	9.50	5.92
2011	0.01	-0.70	-3.77
2012	12.90	12.10	9.81
2013	7.46	6.70	5.47
2014	11.85	11.06	11.50
2015	5.23	4.48	2.99
2016	5.82	5.07	2.80
2017	6.03	5.28	3.16
2018	-2.41	-3.10	-5.18
2019	16.06	15.24	14.19
2000-2019	4.97	4.13	2.14

Table BE14. Annualized performance of occupational pension plans managed by IORPs (%)

Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	16.94%	16.11%	15.05%
3-years	6.56%	5.81%	4.01%
5-years	6.15%	5.39%	3.56%
7-year	7.13%	6.37%	4.93%
10-years	7.27%	6.51%	4.60%
2000-2019	4.97%	4.13%	2.14%

Source: Table BE13, own computations

Over a 20-year period (2000-2019), occupational pension plans managed by IORPs experienced negative nominal returns before charges four times: in 2001, 2002, 2008 and in 2018. Over the period 2000-2019, the annualisez performance after charges, tax and inflation is positive (2.14%). PensioPlus reported the average asset allocation of IORP at end-2019, as follows: 36% in equities, 52% in Fixed Income securities, 5% in Real Estate, 3% in cash and 4% in other asset classes. The asset allocation

[81] 63 IORP participated in the 2018 annual PensioPlus' survey. They represented 22.6 billion euros under management (64% of the market share)

remained quite steady in 2019. The proportion of fixed income assets still represented the largest part of assets. The proportion of real estate and cash increased in 2019.

Occupational pension plans managed by insurance companies (Branch 21)

Assuralia used to annually report net returns after charges in percentage of the total reserves in its annual report[82]. Since 2015, this report no longer contains available information on the returns of "Assurance Groupe" Branch 21 contracts. We are thus unable to update this information for the whole years after 2015.

FSMA reported an average net return of 2.63% for sector pension funds managed through "Assurance Groupe" contracts in 2017 (against 2.91% in 2016 and 3.01% in 2015)[83]. The downward trend that has been observed for several years is confirmed. One can observe the same assessment for PLCI conventions.

A self-employed individual who subscribes to a PLCI convention had on average a return of 2.64% (against 2.75% in 2015) on its contracts in 2017.

86% of PLCI conventions were managed by an insurance company through Branch 21 contracts. In general, these conventions benefitted from a guaranteed return. However, half of insurance companies who managed Branch 21 contracts reported a guaranteed return no more than 0.2% in 2017.

In 2017, the average guaranteed return of PLCI conventions managed through Branch 21 contracts was 2.09% and the average participation to benefits was 0.6% (against 0.95% in 2015).

Nevertheless, Assuralia provided information on "Assurance Groupe" contracts on its website[84]. At the end-2018, "Assurance Groupe" Branch 21 contracts invested a total amount of €201.8 billion with the following asset allocation:

- 73% in fixed income assets (of which 32% in Belgian government bonds);
- 9% in equities and UCITS;
- 16% in loans and real estate;
- 2% in other assets.

With the decline in the return on the Belgian 10-year government bonds since 2011, insurance companies were forced to decrease the guaranteed return offered to new contributions on "Assurance Groupe" Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on the past contributions until the retirement. Past reserves continue to have guaranteed returns range from 3.25% to 4.75%. In 2018, the average guaranteed return decreased but remained above inflation at 2.74%. When including the profit share, the average guaranteed return reached 3% of the total reserves.

[82] In November 2019, Assuralia published its annual report including Statistics for the whole year 2018.
[83] FSMA, Report on sector pensions plans, August 2019.
[84] http://assuralia.be/fr/infos-secteur/publications-secteur/775-l-assurance-de-groupe-un-tour-d-horizon-au-niveau-du-secteur

Table BE15. Returns of occupational pension plans managed by insurance companies ("Branch 21" contracts) (%)			
	Nominal return before charges, tax and inflation	Nominal return after charges, before tax and inflation	Real return after charges and inflation, before tax
2002	5.4	4.1	2.73
2003	6.3	5.3	3.61
2004	6.3	5.4	3.32
2005	6.8	5.8	2.96
2006	6.7	5.7	3.55
2007	6.6	5.7	2.51
2008	2.0	1.2	-1.46
2009	5.4	4.6	4.25
2010	5.3	4.5	1.08
2011	4.0	3.3	0.11
2012	5.4	4.6	2.47
2013	5.4	4.7	3.49
2014	5.5	4.8	5.21
Sources: "Assuralia", own calculations			

(2002-2014), "Assurance Groupe" Branch 21 occupational pension plans experienced a positive real annual average return after charges and taxation of 2.0%.

Table BE16. Annual average return of "Branch 21" occupational pension plans managed by insurance companies (2002-2014) (%)	
Nominal return before charges, tax and inflation	5.5
Nominal return after charges, before tax and inflation	4.6
Real return after charges and inflation, before tax	2.6
Real return after charges, tax and inflation	2.0
Source: "Assuralia", own calculations	

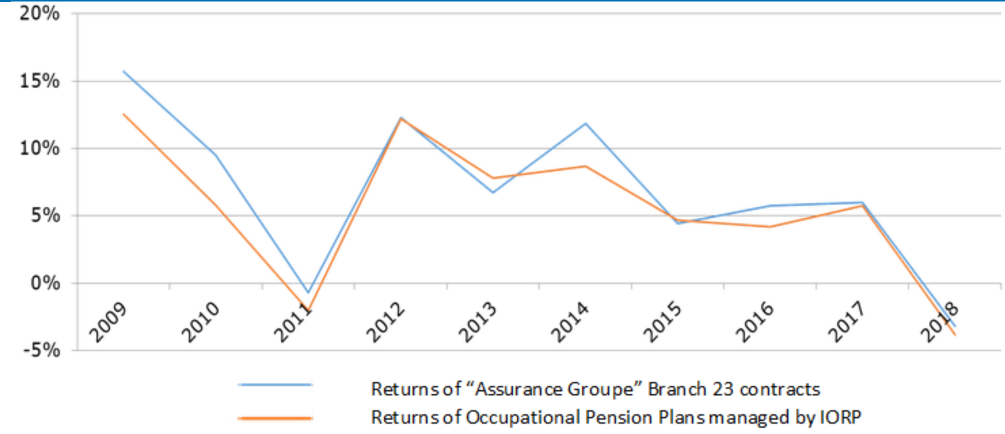
Occupational pension plans managed by insurance companies (Branch 23)

The following graph show the returns of "Assurance Groupe" Branch 23 from 2009 to 2018. Returns on "Assurance Groupe" Branch 23 contracts are variable and depend on the performance of underlying assets. These contracts experienced negative returns in 2008, 2011 and 2018. Their net average returns were very close to those of occupational funds managed by IORP (around -4% in 2018).

Insurance companies do not offer guaranteed return on these contracts. However, affiliates benefit from the legal minimum guaranteed return on their contributions, currently equal to 1.75%. When the affiliate claims its pension rights, if the final payment is less than the amount including the minimum guaranteed return, the employer has to pay the difference.

Since 2015, Assuralia no longer provides information on the returns of "Assurance Groupe" Branch 23 contracts.

Graph BE17. Average return on “Assurance Groupe” Branch 23 contracts



Source: Assuralia, PensioPlus

Pillar III: Personal pension savings products

Pension savings funds

The Belgian Asset Management Association (BeAMA) provides quarterly data on the annual average returns of pension savings funds. The most recent data was on an annual basis at end-2019.

Table BE18. Annualised performance of pension savings funds

Over 1 year	Over 3 years	Over 10 years	Over 25 years
15.04%	4.25%	5.51%	6.56%

Source: BeAMA and BETTERFINANCE's calculations

These average returns were calculated based on the average returns of all available funds in the market, after expenses but before taxation and inflation.

Annual returns are also available in the prospectus of each pension savings fund provided by the asset management company that commercialises the fund. In general, there is no available information on returns before 2002 in the fund prospectuses. The following table displays the average return of all available funds for subscription in the Belgian market from 2000 to 2019.

From 2013 to 2019, TER expressed as a percentage of total assets under management were collected and were used in returns calculations. However, there is no historical data for TER before 2013. Over the whole period from 2000-2012, TER from 2013 were used and assumed to remain stable.

Table BE19 Nominal and real returns of pension saving funds (%)								
2000	Gross returns	-2.81	5.06	Nominal return after charges, before inflation and taxes	-4.00	3.77	Real return after charges and inflation and before taxes	-6.77	1.78
2001		-3.32			-4.50			-6.30	
2002		-13.44			-14.50			-15.62	
2003		16.02			14.60			12.75	
2004		20.19			18.72			16.38	
2005		18.54			17.09			13.95	
2006		10.45			9.10			6.88	
2007		3.75			2.48			-0.61	
2008		-25.06			-25.98			-27.92	
2009		20.03			18.56			18.17	
2010		8.59			7.26			3.75	
2011		-4.13			-5.31			-8.23	
2012		12.93			11.55			9.28	
2013		12.75			11.37			10.09	
2014		8.63			7.30			7.72	
2015		9.78			8.38			6.84	
2016		4.10			2.80			0.58	
2017		8.13			6.79			4.64	
2018		-6.88			-8.02			-10.00	
2019		16.83			15.36			14.30	

Source: Assuralia, own calculations

Table BE20 Annualized performance of pension saving funds (%)			
Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	16.8%	15.4%	14.3%
3-years	5.6%	4.3%	2.5%
5-years	6.1%	4.8%	3.0%
7-year	7.4%	6.1%	4.6%
10-years	6.8%	5.5%	3.6%
2000-2019	5.1%	3.8%	1.8%

Source: Table BE19

Pension savings funds within the third pillar experienced negative nominal returns from 2000 to 2002, as well as in 2008, 2011 and in 2018. Unlike occupational pension plans, these pension savings funds are not obliged to pay a guaranteed return to retirees. Over the 20-year period (2000-2019), they delivered relatively similar nominal returns to occupational pension plans managed by IORPs. Benefits are taxed at a flat rate of 8%[85], considering an annual return of 4.75% during the accumulation phase, irrespective of the fund returns.

Pension savings insurance (Branch 21 contracts) and long-term savings products (Branch 23 contracts)

In order to save for their retirement, Belgian can subscribe to pension savings insurance or to long-term savings products. Pension savings insurance consists in investing in individual life-insurance Branch 21 contracts with a guaranteed capital. Long-term savings products combine Branch 21 contracts and unit-

[85] To calculate the taxation, the following assumptions are made: the saver subscribes before the age of 55. The final taxation is levied at her / his 60th birthday.

linked Branch 23 contracts. Assuralia used to report net returns after charges in percentage of the total reserves managed through Branch 21 and Branch 23 contracts. This information gave an insight into returns of reserves invested within the third pillar. However, we were unable to update returns for the whole year 2015 as there was no available information on the annual data published by Assuralia. Over the whole period from 2002-2014, the real annual average return after charges and taxation remained positive to 1.67% for Branch 21 contracts and to 1.30% for Branch 23 contracts.

Branch 23 contracts experienced negative nominal and real returns in 2008 and 2011. Nevertheless, there is no available information on return after the year 2014.

Table BE21. Returns of individual Branch 23 contracts[86] (%)			
	Nominal return before charges, tax and inflation	Nominal return after charges, before tax and inflation	Real return after charges and inflation, before tax
2005	11.9	11.5	8.5
2006	7.5	7.1	4.9
2007	1.6	1.3	-1.8
2008	-18.2	-18.5	-20.6
2009	13.3	12.9	12.5
2010	7.5	7.1	3.6
2011	-2.6	-2.9	-5.9
2012	9.4	9.1	6.9
2013	5.9	5.6	4.4
20144	8.3	7.9	8.3

Sources: "Assuralia", BETTER FINANCE calculations

Table BE22. Annual average return of individual life-insurance Branch 23 contracts (2005-2014) (%)	
Nominal return before charges, tax and inflation	4.1
Nominal return after charges, before tax and inflation	3.7
Real return after charges and inflation, before tax	1.6
Real return after charges, tax and inflation	1.3

Sources: "Assuralia", BETTER FINANCE calculations

In our calculations, we considered that benefits from Branch 21 contracts were taxed like pension savings schemes and a flat tax rate of 10% was applied to the accrued benefits from Branch 23 contracts.

Table BE23. Returns of Branch 21 contracts (2002-2014) (%)			
	Nominal return before charges, before inflation, before tax	Nominal return after charges before inflation, before tax	Real return after charges, after inflation, before tax
2002	4,0	2,75	1,40
2003	5,6	3,75	2,08
2004	6,3	4,75	2,69
2005	6,3	5,44	2,61

2006	5,9	5,14	3,00
2007	6,0	5,24	2,06
2008	0,8	0,10	-2,53
2009	4,9	4,32	3,97
2010	4,6	4,02	0,62
2011	3,0	2,51	-0,65
2012	5,0	4,42	2,29
2013	4,7	4,12	2,92
2014	**5,8**	**5,20**	**5,61**
Source: "Assuralia", own calculations			

Table BE24. Annual average return of individual Branch 21 contracts (2002-2014) (%)	
Nominal return before charges, before inflation, before tax	4,8
Nominal return after charges before inflation, before tax	4,0
Real return after charges, after inflation, before tax	1,99
Real return after charges, tax and inflation	1,7
Sources: "Assuralia", own calculations	

Conclusions

Belgians are encouraged to save for their retirement in private pension vehicles. In 2003, the implementation of the Supplementary Pensions Act defined the framework of the second pillar for sector pension plans and supplementary pension plans for self-employed individuals. The number of employees covered by occupational pension plans keeps rising as well as the number of self-employed individuals covered by supplementary pension plans.

Measures to guarantee the sustainability and social character of the supplementary pensions were enforced in January 2016:

- The guaranteed minimum return on contribution was lowered to 1.75% for both employee and employer contributions. This return will be revised according to an economic formula considering the evolution of government bond yields in the future;
- The supplementary pension age and the legal pension age were aligned;
- Beneficial anticipation measures granted to employees when they claim their supplementary pension before the legal age were abolished.

Over a 20-year period (2000-2019), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) had a real annualised performance before taxation of 2.14% and 1.78% respectively. These funds offer returns linked to the performance of the underlying assets. Unlike insurance companies, asset management companies are less constrained in their asset allocation and can more easily benefit from potential increases in markets.

Assuralia reported some information on "Assurance since 2015 Groupe" contracts on its website. In 2015, "Assurance Groupe" Branch 21 contracts offered on average nearly 3.5% of return (including profit share) and "Assurance Groupe" Branch 23 contracts offered a return close to 4%. The case analysis in the annex reports the return of an occupational pension plan invested through a Branch 23 contract. Nevertheless, we do not have any information on return for "Assurance Groupe" and individual life-insurance contracts within the third pillar since 2014.

Bibliography

- Rapport bisannuel concernant les régimes de pension sectoriels– FSMA (August 2019)
  - https://www.fsma.be/fr/rapport-bisannuel-0
- Rapport bisannuel concernant la pension complémentaire libre des indépendants – FSMA (June 2017)
  - https://www.fsma.be/sites/default/files/public/content/FR/fsma_wapz_2017_fr.pdf
- Le secteur des institutions de retraite professionnelle – FSMA (Reporting sur l'exercice 2017)
  - https://www.fsma.be/fr/statistiques-des-operations-des-institutions-de-retraite-professionnelle
- Rapport annuel PensioPlus -2018
  - http://pensioplus.be/ABIP/documents/2.Rapportannuel_20182930.pdf
- DB2P website
  - https://www.db2p.be/nl/resources/bf6bd8a9-b630-4e06-90e4-1b7e7024ec4e/Cijfers%20persmap%20mijn%20aanvullend%20pensioen_NL.pdf
- Wikifin.be website
  - http://www.wikifin.be/fr/thematiques/les-pensions/pension-complementaire/quand-la-demander
  - http://www.wikifin.be/fr/thematiques/les-pensions/epargne-pension/fiscalite
- Assuralia website:
  - L'épargne pension - http://assuralia.be/images/docs/stats/FR/02_chiffres-cles-par-branche/02_07_epargne-pension.htm
  - L'épargne à long-terme - http://assuralia.be/images/docs/stats/FR/02_chiffres-cles-par-branche/02_07_epargne-long-terme.htm
  - Encaissements de l'assurance vie - http://assuralia.be/images/docs/stats/FR/02_chiffres-cles-par-branche/02_07_encaissement-vie.htm
  - Provisions de l'assurance vie - http://assuralia.be/images/docs/stats/FR/02_chiffres-cles-par-branche/02_07_provisions-vie.htm
  - Proportion Banques/Assureurs 3ème pillier - http://assuralia.be/images/docs/stats/FR/02_chiffres-cles-par-branche/02_07_banques-assureurs-troisieme-pilier.htm
  - Les principaux chiffres du marché belge de l'assurance en 2017 - https://www.assuralia.be/fr/etudes-et-chiffres/etudes-d-assuralia/237-les-principaux-chiffres-du-marche-belge-de-l-assurance-en-2016
  - L'assurance de groupe : un tour d'horizon au niveau du secteur - http://assuralia.be/fr/infos-secteur/publications-secteur/775-l-assurance-de-groupe-un-tour-d-horizon-au-niveau-du-secteur
- BeAma's website:
  - Chiffres secteur OPC 4ème trimestre 2018, 03 Mai 2019 - https://www.beama.be/fr/publicaties-fr/persberichten-fr/communique-de-presse-4ieme-trimestre-2018

Imprint

Editor and Publisher
The European Federation of Investors and Financial Services Users
Rue d'Arenberg 44
1000 Brussels
Belgium
info@betterfinance.eu

Coordinators

Aleksandra Mączyńska
Ján Šebo
Ştefan Dragoş Voicu

Contributors

Edoardo Carlucci
Lubomir Christoff
Lars Christensen
Michaël Deinema
Laetitia Gabaut
Yordanka Popova
Lisbeth Grænge-Hansen
Johannes Hagen
José Antonio Herce
Arnaud Houdmont
Matis Joab
Michal Mešťan
Gregoire Naacke
Dayana Nacheva
Carlos Nava
Guillaume Prache
Joanna Rutecka-Góra
Dr. Thomas Url

BETTER FINANCE activities are partly funded by the European Commission. There is no implied endorsement by the EU or the European Commission of work carried out by BETTER FINANCE, which remains the sole responsibility of BETTER FINANCE.