PENSION SAVINGS
THE REAL RETURN
2018 EDITION

BF BETTER FINANCE

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Pension Savings: The Real Return
2018 Edition

A Research Report by BETTER FINANCE

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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

Glossary of terms

Accrued benefits* – is the amount of accumulated pension benefits of a pension plan member on the basis of years of service.

Accumulated assets* – is the total value of assets accumulated in a pension fund.

Active member* – is a pension plan member who is making contributions (and/or on behalf of whom contributions are being made) and is accumulating assets.

AIF(s) – or Alternative Investment Funds are a form of collective investment funds under E.U. law that do not require authorization as a UCITS fund.[1]

Annuity* – is a form of financial contract mostly sold by life insurance companies that guarantees a fixed or variable payment of income benefit (monthly, quarterly, half-yearly, or yearly) for the life of a person(s) (the annuitant) or for a specified period of time. It is different than a life insurance contract which provides income to the beneficiary after the death of the insured. An annuity may be bought through instalments or as a single lump sum. Benefits may start immediately or at a pre-defined time in the future or at a specific age.

Annuity rate* – is the present value of a series of payments of unit value per period payable to an individual that is calculated based on factors such as the mortality of the annuitant and the possible investment returns.

Asset allocation* – is the act of investing the pension fund's assets following its investment strategy.

Asset management* – is the act of investing the pension fund's assets following its investment strategy.

Asset manager* – is(are) the individual(s) or entity(ies) endowed with the responsibility to physically invest the pension fund assets. Asset managers may also set out the investment strategy for a pension fund.

Average earnings scheme* – is a scheme where the pension benefits earned for a year depend on how much the member's earnings were for the given year.

Basic state pension* – is a non-earning related pension paid by the State to individuals with a minimum number of service years.

Basis points (bps) – represent the 100th division of 1%.

Benchmark (financial) – is a referential index for a type of security. Its aim is to show, customized for a level and geographic or sectorial focus, the general price or performance of the market for a financial instrument.

Beneficiary* – is an individual who is entitled to a benefit (including the plan member and dependants).

Benefit* – is a payment made to a pension fund member (or dependants) after retirement.

[1] See Article 4(1) of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174, 1.7.2011, p. 1–73.

Bonds – are instruments that recognize a debt. Although they deliver the same utility as bank loans, i.e. enabling the temporary transfer of capital from one person to another, with or without a price (interest) attached, bonds can be also be issued by non-financial institutions (States, companies) and by financial non-banking institutions (asset management companies). In essence, bonds are considered more stable (the risk of default is lower) and in theory deliver a lower, but fixed, rate of profit. Nevertheless, Table EX2 of the Executive Summary shows that the aggregated European Bond Index highly overperformed the equity one.

Closed pension funds* – are the funds that support only pension plans that are limited to certain employees. (e.g. those of an employer or group of employers).

Collective investment schemes – are financial products characterised by the pooling of funds (money or asset contributions) of investors and investing the total into different assets (securities) and managed by a common asset manager. Under E.U. law collective investment schemes are regulated under 6 different legal forms: UCITS (see below), the most common for individual investors; AIFs (see above), European Venture Capital funds (EuVECA), European Long-Term Investment Funds (ELTIFs), European Social Entrepreneurship Funds (ESEF) or Money Market Funds.[2]

Contribution* – is a payment made to a pension plan by a plan sponsor or a plan member.

Contribution base* – is the reference salary used to calculate the contribution.

Contribution rate* – is the amount (typically expressed as a percentage of the contribution base) that is needed to be paid into the pension fund.

Contributory pension scheme* – is a pension scheme where both the employer and the members have to pay into the scheme.

Custodian* – is the entity responsible, as a minimum, for holding the pension fund assets and for ensuring their safekeeping.

Defered member* – is a pension plan member that no longer contributes to or accrues benefits from the plan but has not yet begun to receive retirement benefits from that plan.

Deferred pension* – is a pension arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned.

Defined benefit (DB) occupational pension plans* – are occupational plans other than defined contributions plans. DB plans generally can be classified into one of three main types, "traditional", "mixed" and "hybrid" plans. These are schemes where "the pension payment is defined as a percentage of income and employment career. The employee receives a thus pre-defined pension and does not bear the risk of longevity and the risk of investment. Defined Benefits schemes may be part of an individual employment contract or collective agreement. Pension contributions are usually paid by the employee and the employer".[3]

"Traditional" DB plan* – is a DB plan where benefits are linked through a formula to the members' wages or salaries, length of employment, or other factors.

[2] See European Commission, 'Investment Funds' (28 August 2018) https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds_en.

[3] Werner Eichhorst, Maarten Gerard, Michael J. Kendzia, Christine Mayrhruber, Connie Nielsen, Gerhard Runstler, Thomas Url, 'Pension Systems in the EU: Contingent Liabilities and Assets in the Public and Private Sector' EP Directorate General for Internal Policies IP/A/ECON/ST/2010-26.

"Hybrid" DB plan* – is a DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets (e.g. fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.

"Mixed" DB plan* – is a DB plans that has two separate DB and DC components, but which are treated as part of the same plan.

Defined contribution (DC) occupational pension plans* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavorable plan experience. These are schemes where "the pension payment depends on the level of defined pension contributions, the career and the returns on investments. The employee has to bear the risk of longevity and the risk of investment. Pension contributions can be paid by the employee and/or the employer and/or the state".[4]

Dependency ratio* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience.

Early retirement* – is a situation when an individual decides to retire earlier later and draw the pension benefits earlier than their normal retirement age.

Economic dependency ratio* – is the division between the number of inactive (dependent) population and the number of active (independent or contributing) population. It ranges from 0% to 100% and it indicates how much of the inactive population's (dependent) consumption is financed from the active population's (independent) contributions.[5] In general, the inactive (dependent) population is represented by children, retired persons and persons living on social benefits.

EET system* – is a form of taxation of pension plans, whereby contributions are exempt, investment income and capital gains of the pension fund are also exempt, and benefits are taxed from personal income taxation.

Equity (or stocks/shares) – are titles of participation to a publicly listed company's economic activity. With regards to other categorizations, an equity is also a security, a financial asset or, under E.U. law, a transferable security.[6]

ETE system* – is a form of taxation whereby contributions are exempt, investment income and capital gains of the pension fund are taxed, and benefits are also exempt from personal income taxation.

ETF(s) – or Exchange-Traded Funds are investment funds that are sold and bought on the market as an individual security (such as shares, bonds). ETFs are structured financial products, containing a

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[4] Ibid.

[5] For more detail on the concept, see Elke Loichinger, Bernhard Hammer, Alexia Prskawetz, Michael Freiberger, Joze Sambt, 'Economic Dependency Ratios: Present Situation and Future Scenarios' MS13 Policy Paper on Implications of Population Ageing for Transfer Systems, Working Paper no. 74, 18th December 2014, 3.

[6] Article 4(44) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173, p. 349–496 (MiFID II).

basket of underlying assets, and are increasingly more used due to the very low management fees that they entail.

Fund member* – is an individual who is either an active (working or contributing, and hence actively accumulating assets) or passive (retired, and hence receiving benefits), or deferred (holding deferred benefits) participant in a pension plan.

Funded pension plans* – are occupational or personal pension plans that accumulate dedicated assets to cover the plan's liabilities.

Funding ratio (funding level) * – is the relative value of a scheme's assets and liabilities, usually expressed as a percentage figure.

Gross rate of return* – is the rate of return of an asset or portfolio over a specified time period, prior to discounting any fees of commissions.

Gross/net replacement rate – is the ratio between the pre-retirement gross or net income and the amount of pension received by a person after retirement. The calculation methodology may differ from source to source as the average working life monthly gross or net income can used to calculate it (divided by the amount of pension) or the past 5 year's average gross income etc. (see below **OECD net replacement rate).**

Group pension funds* – are multi-employer pension funds that pool the assets of pension plans established for related employers.

Hedging and hedge funds – while hedging is a complex financial technique (most often using derivatives) to protect or reduce exposure to risky financial positions or to financial risks (for instance, currency hedging means reducing exposure to the volatility of a certain currency), a hedge fund is an investment pool that uses complex and varying investment techniques to generate profit.

Indexation* – is the method with which pension benefits are adjusted to take into account changes in the cost of living (e.g. prices and/or earnings).

Individual pension plans* – is a pension fund that comprises the assets of a single member and his/her beneficiaries, usually in the form of an individual account.

Industry pension funds* – are funds that pool the assets of pension plans established for unrelated employers who are involved in the same trade or businesses.

Mandatory contribution* – is the level of contribution the member (or an entity on behalf of the member) is required to pay according to scheme rules.

Mandatory occupational plans* – Participation in these plans is mandatory for employers. Employers are obliged by law to participate in a pension plan. Employers must set up (and make contributions to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.

Mandatory personal pension plans* - are personal plans that individuals must join or which are eligible to receive mandatory pension contributions. Individuals may be required to make pension contributions to a pension plan of their choice normally within a certain range of choices or to a specific pension plan.

Mathematical provisions (insurances) – or *mathematical reserves* or *reserves*, are the value of liquid assets set aside by an insurance company that would be needed to cover all current liabilities (payment obligations), determined using actuarial principles.

Minimum pension* – is the minimum level of pension benefits the plan pays out in all circumstances.

Mixed indexation* – is the method with which pension benefits are adjusted taking into account changes in both wages and prices.

Money market instruments – are short-term financial products or positions (contracts) that are characterized by the very high liquidity rate, such as deposits, shor-term loans, repo-agreements and so on.

MTF – multilateral trading facility, is the term used by the revised Markets in Financial Instruments Directive (MiFID II) to designate securities exchanges that are not a regulated market (such as the London Stock Exchange, for example).

Multi-employer pension funds* – are funds that pool the assets of pension plans established by various plan sponsors. There are three types of multi-employer pension funds:

a) for related employers i.e. companies that are financially connected or owned by a single holding group (group pension funds);

b) for unrelated employers who are involved in the same trade or business (industry pension funds);

c) for unrelated employers that may be in different trades or businesses (collective pension funds).

NAV – Net Asset Value, or the amount to which the market capitalisation of a financial product (for this report, pension funds' or insurance funds' holdings) or a share/unit of it arises at a given point. In general, the Net Asset Value is calculated per unit or share of a collective investment scheme using the daily closing market prices for each type of security in the portfolio.

Net rate of return* – is the rate of return of an asset or portfolio over a specified time period, after discounting any fees of commissions.

Normal retirement age* – is the age from which the individual is eligible for pension benefits.

Non-contributory pension scheme* – is a pension scheme where the members do not have to pay into scheme.

Occupational pension plans* – access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups of thereof (e.g. industry associations) and labour or professional associations, jointly or separately. The plan may be administrated directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.

OECD gross replacement rate - is defined as gross pension entitlement divided by gross pre-retirement earnings. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings by gender.

OECD net replacement rate - is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings by gender.

Old-age dependency ratio - defined as the ratio between the total number of elderly persons when they are generally economically inactive (aged 65 and above) and the number of persons of working age.[7] It is a sub-indicator of the economic dependency ratio and focuses on a country's public (state) pension system's reliance on the economically active population's pensions (or social security) contributions. It is a useful indicator to show whether a public (Pillar I) pension scheme is under pressure (when the ratio is high, or the number of retirees and the number of workers tend to be proportionate) or relaxed (when the ratio is low, or the number of retirees and the number of workers tend to be disproportionate). For example, a low old-age dependency ratio is 20%, meaning that 5 working people contribute for one retiree's pension.

Open pension funds* – are funds that support at least one plan with no restriction on membership.

Pension assets* – are all forms of investment with a value associated to a pension plan.

Pension fund administrator* – is(are) the individual(s) ultimately responsible for the operation and oversight of the pension fud.

Pension fund governance* – is the operation and oversight of a pension fund. The governing body is responsible for administration, but may employ other specialists, such as actuaries, custodians, consultants, asset managers and advisers to carry out specific operational tasks or to advise the plan administration or governing body.

Pension fund managing company* – is a type of administrator in the form of a company whose exclusive activity is the administration of pension funds.

Pension funds* – the pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.

Pension insurance contracts* – are insurance contracts that specify pension plans contributions to an insurance undertaking in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. Most countries limit the integration of pension plans only into pension funds, as the financial vehicle of the pension plan. Other countries also consider the pension insurance contract as the financial vehicle for pension plans.

Pension plan* – is a legally binding contract having an explicit retirement objective (or – in order to satisfy tax-related conditions or contract provisions – the benefits can not be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract

[7] See Eurostat definition: http://ec.europa.eu/eurostat/web/products-datasets/product?code=tsdde511.

may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits.

Pension plan sponsor* – is an institution (e.g. company, industry/employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members.

Pension regulator* – is a governmental authority with competence over the regulation of pension systems.

Pension supervisor* – is a governmental authority with competence over the supervision of pension systems.

Personal pension plans* - Access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.

Private pension funds* – is a pension fund that is regulated under private sector law.

Private pension plans* – is a pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers.

Public pension plans* – are pensions funds that are regulated under public sector law.

Public pension plans* – are the social security and similar statutory programmes administered by the general government (that is central, state, and local governments, as well as other public sector bodies such as social security institutions). Public pension plans have been traditionally PAYG financed, but some OECD countries have partial funding of public pension liabilities or have replaced these plans by private pension plans.

Rate of return* – is the income earned by holding an asset over a specified period.

REIT(s) or Real Estate Investment Trust(s) is the most common acronym and terminology used to designate special purpose investment vehicles (in short, companies) set up to invest and commercialise immovable goods (real estate) or derived assets. Although the term comes from the U.S. legislation, in the E.U. there are many forms of REITs, depending on the country since the REIT regime is not harmonised at E.U. level.

Replacement ratio* – is the ratio of an individual's (or a given population's) (average) pension in a given time period and the (average) income in a given time period.

Service period* – is the length of time an individual has earned rights to a pension benefits.

Single employer pension funds* – are funds that pool the assets of pension plans established by a single sponsor.

Supervisory board* – is(are) the individual(s) responsible for monitoring the governing body of a pension entity.

System dependency ratio* – typically defined as the ratio of those receiving pension benefits to those accruing pension rights.

TEE system* – is a form of taxation of pension plans whereby contributions are taxed, investment income and capital gains of the pension fund are exempt, and benefits are also exempt from personal income taxation.

Trust* – is a legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).

Trustee* – is a legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).

UCITS – or Undertakings for Collective Investment in Transferable Securities, is the legal form under E.U. law for mutual investment funds that are open to pool and invest funds from any individual or institutional investor, and are subject to specific authorisation criteria, investment limits and rules. The advantage of UCITS is the general principle of home-state authorisation and mutual recognition that applies to this kind of financial products, meaning that a UCITS fund established and authorised in one E.U. Member State can be freely distributed in any other Member State without any further formalities (also called *E.U. fund passporting*).

Unfunded pension plans* – are plans that are financed directly from contributions from the plan sponsor or provider and/or the plan participant. Unfunded pension plans are said to be paid on a current disbursement method (also known as the pay as you go, PAYG, method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth contributions within given time periods. Most OECD countries do not allow unfunded private pension plans.

Unprotected pension plan* – is a plan (personal pension plan or occupational defined contribution pension plan) where the pension plan/fund itself or the pension provider does not offer any investment return or benefit guarantees or promises covering the whole plan/fund.

Voluntary contribution – is an extra contribution paid in addition to the mandatory contribution a member can pay to the pension fund in order to increase the future pension benefits.

Voluntary occupational pension plans - The establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can on a voluntary basis establish occupational plans that provide benefits that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security contributions.

Voluntary personal pension plans* – Participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension contributions to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security benefits with those from personal pension plans.

Wage indexation* – is the method with which pension benefits are adjusted taking into account changes in wages.

Waiting period* – is the length of time an individual must be employed by a particular employer before joining the employer's pension scheme.

Winding-up* – is the termination of a pension scheme by either providing (deferred) annuities for all members or by moving all its assets and liabilities into another scheme.

World Bank multi-pillar model – is the recommended design, developed by the World Bank in 1994, for States that had pension systems inadequately equipped to (currently and forthcoming) sustain a post-retirement income stream for future pensioners and alleviate the old-age poverty risk. Simpler, it is a set of guidelines for States to either enact, reform or gather legislation regulating the state pension and other forms of retirement provisions in a form that would allow an increased workers' participation, enhance efficiency for pension savings products and a better allocation of resources under the principle of solidarity between generations.

The standard design of a robust pension system would rely on five pillars:

a) the non-contributory scheme (pillar 0), through which persons who do not have an income or do not earn enough would have insured a minimum pension when reaching the standard retirement age;

b) the public mandatory, Pay-As-You-Go (PAYG) scheme (**Pillar I**), gathering and redistributing pension contributions from the working population to the retirees, while accumulating pension rights (entitlements) for the future retirees;

c) the mandatory funded and (recommended) privately managed scheme (**Pillar II**), where workers' contributions are directed to their own accumulation accounts in privately managed investment products;

d) the voluntary privately managed retirement products (**Pillar III**), composed of pension savings products to which subscription is universal, contributions and investments are deregulated and tax-incentivised;

e) the non-financial alternative aid scheme (pillar IV), through which the state can offer different forms of retirement support – such as housing or family support. Albeit the abovementioned, the report focuses on the "*main pillars*", i.e. Pillar I, II and III, since they are the most significant (and present everywhere) in the countries that have adopted the multi-pillar model.

Definitions with "*" are taken from OECD's Pensions Glossary - http://www.oecd.org/daf/fin/private-pensions/38356329.pdf.

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Pension Savings: The Real Return

2018 Edition

Country Case: Belgium

Resumé

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% en 2016. 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 18 ans (2000-2018), 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 et taxation de 1,48% et 1,58% 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 amongst the three pillars and provides, on average, a replacement rate of 66% in 2016. 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 an 18-year period (2000-2018), occupational pension funds managed by IORPs (Pillar II) and pension savings funds (Pillar III) had real annual average returns after charges and taxation of 1.48% and 1.58% 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 range from 3.25% to 4.75%. In 2015, the average guaranteed return was slightly above 3%. Due to a lack of information, it is difficult to provide information on returns for 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	Voluntary pension
	The Supplementary Pension Law (the Vandenbroucke Law) implemented in 2003	
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: 2,098,197	IORP: 199	Pension savings funds: 19
Average old-age pension: €1,065	AuM: €97.7 bn	AuM: €50.2 bn
Average income (gross): €3,345	Participants: 3.7 million	Participants: 3.3 million
Average replacement ratio: 66%	Coverage ratio: 75%	Coverage ratio: 66%

Source: Own composition

Pillar I

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 age of retirement 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 to the age of 67 by 2030. The Pillar I pensions are PAYG systems based on career duration and income earned. A complete career corresponds 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 €1,525.60 if he/she lives within a household or € 1,220.86 if he/she lives alone. In 2016, the net replacement rate from the PAYG system for men (with an average working wage) was 66.1% and, respectively, for women 66%.[69]

Pillar II

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). Within Pillar II, company pension plans have traditionally dominated as opposed 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 solidarity clause that provides employees with additional coverage for periods of inactivity (e.g. unemployment, maternity leave, illness). Notably, 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

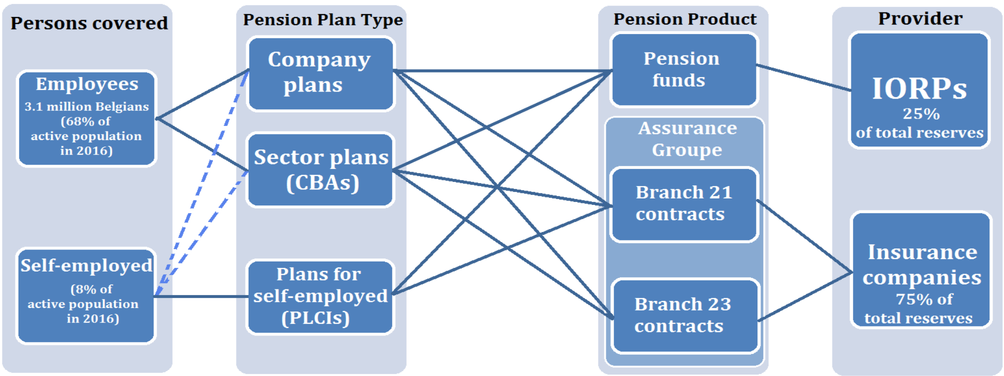
[69] OECD, Pension at Glance 2017 Country Profiles – Belgium, https://data.oecd.org/pension/net-pension-replacement-rates.htm.

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 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 occupational pension plans provided financial compensations to offset the income loss that employees may have when they end prematurely their career. As of January 1st, 2016, all these aforementionned beneficial anticipation measures were abolished. These existing "advance mechanisms" can still be applied to affiliates who reached the age of 55 years on or before December 31, 2016. At the beginning of 2017, approximatively 3.7 million Belgians (75% of the active population[70]) were covered by occupational pension plans:

- 3.1 million employees were covered either by their company or by their sector of activity;
- 367,586 self-employed individuals were covered by supplementary pension plans;
- 182,691 individuals were covered both by their company or by their sector of activity and by a supplementary pension plan dedicated to self-employed.[71]

BELGIAN PILLAR II STRUCTURE



[70] According to Statista, the active population of Belgian in 2016 was of 4,586,662 people – see Statista, 'Active population in Belgium in 2016, by sector and gender' (27 July 2018), available at: https://www.statista.com/statistics/538618/active-population-in-belgium-by-sector-and-gender/.
[71] Source: DB2P's website: http://www.db2p.be/fr/resources/7432001d-a14d-4d1b-a76f-2816601e2c07/Cijfers%20persmap%20mijn%20aanvullend%20pensioen_%20FR.pdf?1531387379408
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.

Pillar III

Pillar III's purpose is to provide Belgians with individual private and voluntary pension products, which allow them to have tax reliefs on 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. Pillar III 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 Pillar III.[72] Pillar III covered two thirds of the active population of Belgium in 2017,[73] with 34% of workers subscribed to a life insurance retirement savings product (1.7 million Belgians) and 32% being covered by pension savings funds (1.6 million Belgians), leaving 34% of the working population without a supplementary Pillar III savings coverage.[74]

Pension Vehicles

Pillar II: Occupational pension plans

Pillar II 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, available information reported in Tables BE2 to BE5 was provided by the Financial Services and Markets Authority (FSMA), Assuralia and 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

72 The lowering of the tax rate does not apply to long-term savings products.

73 According to the official statistics office of Belgium (StatBEL), the average active population in 2017 was of 4,940,348 Belgians = see Statbel, 'Active (working and unemployed) population since 2017 based on the reformed Labour Force Survey, by quarter, region, age class and level of education' (27 July 2018) available at https://bestat.statbel.fgov.be/bestat/crosstable.xhtml?view=7d30d7ff-ab74-4047-b2af-2a0bff250647.

74 Considering that the average unemployment rate in 2017 was 7.16% - see Ibid.

pension products provider[75]). 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).

Data for the whole year 2017 is missing as the bi-annual survey regarding 2017 figures will be published in 2019. Annual statistics for the whole year 2017 for occupational pension plans managed by IORPs and "*Assurance Groupe*" contracts will unfortunately be published only by the end of this year.

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.

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 linked to other funds' units (unit-linked).

In 2016, IORPs managed 199 occupational pension plans. The number of affiliates to IORPs increased to 1,980,200 in 2016.[76] This is mainly due to the counting of dormant affiliates that were not counting until now.

In 2016, affiliates to sector pension plans through IORPs still represented the largest part in the number of total affiliates to IORP plans (76%), whereas their reserves represented only 18% of the total (€5.3billion). The number of affiliates to sector pension plans managed by IORPs continued to increase from 1,120,157 in 2015 to 1,507,893 in 2016.

Company pension plans managed by IORPs represented 72% of total reserves (€19.4 billion) with 22% 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 27%, the rest being managed by insurance companies through Branch 21 and Branch 23 contracts, described below.

[75] 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.
[76] Source: FSMA.

“*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% in 2016. In case of a shortfall on the individual account when paying a benefit or a transfer of reserves, the employer must pay the difference. This kind of occupational plansis riskier for employers who bear the risk and are generally costlier.

In the second pillar, only company pension plans are managed through Branch 23 contracts. In 2016, these contracts accumulated €2.4 billion in reserves, representing 2.5% of the total reserves managed within “*Assurance Groupe*” contracts (see Table BE1).

Table BE2. Total reserves in pillar II (€ billion)[77]

	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	**54.3**
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	52.7	1.7	54.4	**70.8**
2013	18.0	56.0	1.9	57.9	**75.9**
2014	20.7	60.2	2.1	62.3	**83.0**
2015	21.9	63.9	2.1	66.0	**87.9**
2016	26.8	68.5	2.4	70.9	**97.7**

Sources: "Assuralia", NBB, own 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 2016, only information for occupational pension plans managed by IORP is available. Information regarding occupational pension plans managed by insurance companies ("Assurance Groupe" contracts) is not available[78].

Sector pension plans[79]

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-

[77] Table 1 represents reserves managed only within the second pillar. Data does not include the insurance dedicated to managing directors that represented around €3.1 billion of assets under management in 2016.
[78] FSMA reports on sector pension and PLCI are published every two years. The next edition of these reports will be published in mid-2019.
[79] All data provided comes from plans for which information is available.

committee. In the joint committee/sub-committee, a sectorial organiser responsible for the pension commitment is appointed.

Sector pension plans represent 6% of the total reserves in Pillar II. They are mainly managed by IORPs. Reserves managed by IORPs amounted to €3.4 billion and represented around two thirds of their total reserves in 2015. This amount increased to reach €5.3 billion in 2016 which represents 19% of total reserves managed by IORPs within the second pillar. Sector pension plans managed by insurance companies through Branch 21 contracts are less numerous. In 2015, they represented €1.9 billion of reserves, being 3% of the total reserves managed through "Branch 21 contracts" within the second pillar.

Table BE3. Total reserves in sector pension plans (€ billion) [80]

	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	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

[80] Data for 2006 and 2008 was not available. FSMA publishes a report on sector pension funds every two years.

accumulation period. In 2015, self-employed individuals had the choice between 122 pension plans managed by 3 IORPs and 21 insurance companies.

Self-employed individuals can also supplement their PLCI with several solidarity benefits, called social conventions. These conventions offer benefits such as funding of the PLCI in the case of inactivity and/or the payment of an annuity in case of income loss. Self-employed individuals can save up to 8.17% of their income, without exceeding a maximum annually indexed amount (€3,187.04 in 2018). These ceilings can be increased up to 9.40% and €3,666.85 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 2015, insurance companies managed 73% of the total reserves in PLCI.

Table BE4. Total reserves in PLCI (€ billion)

	IORP	"Assurance Groupe" (Branch 21)	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	5.4	**7.4**
2016	2.1	na	**Na**

Sources: FSMA, own calculations

Company pension plans

Company pension plans are prevalent within the Pillar II. 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 1, 2 and 3.

Table BE5. Total reserves in company pension plans (€ 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	47.3	1.7	49.0	**61.4**
2013	13.7	49.9	1.9	51.8	**65.5**
2014	16.5	53.5	2.1	55.6	**72.1**
2015	16.5	56.6	2.1	58.7	**75.2**
2016	19.4	na	2.4	na	**na**

Sources: "Assuralia", FSMA, NBB, own research

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 forms:
   - A pension savings fund;
   - A pension savings insurance (through individual Branch 21 contracts).
2. Long-term savings products, which consist mainly in 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. At their retirement, individuals are free to choose how to liquidate the products: lump sum payment, periodic annuities or life annuity from invested benefits.

In 2017, 1.6 million Belgians saved through pension savings funds. The number of participants in these products is 20% higher than in 2012. When adding up pension savings insurance contracts and long-term savings products, 2 out of 3 Belgians in the active population are covered by pension plans within the third pillar.[81]

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

[81] BeAma, Press Release, April 18, 2018.

products were available for subscription at end-2017. Pension savings funds hit a record high, with €232 million net sales over 2017 and €19.64 billion net assets under management at end-2017.

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**

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 2017 is unfortunately missing and will be published only by the end of 2018.

Assuralia also reports data on contributions and reserves managed through pension savings insurance and long-term savings products within Pillar III. In 2016, reserves managed within the framework of Pillar III represented 21.4% 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 BE6).

Table BE7. Contributions and reserves in individual life-insurance products within Pillar III in 2016 (€ billion)

	Contributions	Reserves	Pillar III reserves in % of total individual life insurance reserves
Pension savings insurance (Branch 21 contracts)	1.2	14.5	10.3%
Long-term savings products (Branch 21 and Branch 23 contracts combined)	1.1	16.1	11.4%
Total	**2.3**	**30.6**	**20.7%**

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 is for sector pension funds managed by IORPs[82]: operating expenses ranged from 0.01% to 1.02% of assets, with an average of 0.15% in 2015 (0.16% in 2013 and 0.17% in 2011).

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

[82]Source: FSMA, Report on sector pensions plans, June 2017.

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*".

Table BE8. Charges in % of reserves in "Assurance Groupe" contracts		
	Administrative & management costs (% of reserves)	**Contributions (% 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

Sources: "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 5% of premiums. Half of the plans managed by insurance companies levied charges lower than 2% of premiums in 2015. The level of fees was below 1% for 15% of plans. Nevertheless, 13% of plans applied charges above 5% of premiums.[83]

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 (KIIDs) must provide investors with information on all

[83] Source: FSMA, Report on sector pensions plans, June 2017.

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 2017:

- Entry fees: 2.21% of initial investment;
- Management fees: 0.94% of total assets under management;
- Total Expenses Ratio represented on average 1.26% of total assets under management;
- No exit fees.

The following table summarises the Total Expenses Ratio (TER) of 19 available funds for subscription in the Belgian market from 2013 to 2016. The average TER slightly decreased due to the lowering in some fund's TER in 2017.

Table BE9. Historical Total Expense Ratio from 2014 to 2017 (% of assets under management)

	2014	2015	2016	2017
Accent Pension Fund	1.30	1.31	1.31	1.29
Argenta Pensioenspaarfonds	1.36	1.34	1.34	1.34
Argenta Pensioenspaarfonds Defensive	1.38	1.35	1.35	1.33
Belfius Pension Fund High Equities Cap	1.33	1.32	1.32	1.32
Belfius Pension Fund Low Equities Cap	1.16	1.60	1.16	1.16
Belfius Pension Fund Balanced Plus	-	1.63	1.61	1.61
BNP Paribas B Pension Balanced	1.29	1.25	1.25	1.24
BNP Paribas B Pension Growth	1.28	1.26	1.25	1.25
BNP Paribas B Pension Stability F Cap	1.28	1.25	1.25	1.24
Hermes Pension funds	1.08	1.07	1.07	1.06
Interbeurs Hermes Pensioenfonds	1.03	1.03	1.03	1.03
Metropolitan-Rentastro Growth	1.28	1.26	1.25	1.24
Pricos	1.27	1.25	1.25	1.24
Pricos Defensive	1.25	1.25	1.24	1.24
Record Top Pension Fund	1.32	1.32	1.32	1.32
Star Fund	1.09	1.17	1.18	1.18
Crelan pension funds Stability	-	1.29	1.29	1.29
Crelan pension funds Growth	-	1.29	1.29	1.29
Crelan pension funds Balanced	-	1.29	1.29	1.29
Total Expenses Ratio (simple average)	**1.25**	**1.29**	**1.27**	**1.26**

Source: BETTER FINANCE research

On January 12, 2018, Record Top Pension merged with Star Fund. On May 28, 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).[84] This fund invests with a strategy "best in-class", i.e. in companies with the best marks with regards to several 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 does not include fees charged on the underlying units (investment funds).[85]

Table BE10. Administration and management costs and commissions for individual life insurance contracts

	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	0.4	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	7.6	0.4	5.1
2015	0.5	8.6	0.4	4.9
2016	0.5	8.0	0.4	5.7

Sources: "Assuralia", BETTER FINANCE calculations

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

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

Taxation

Pillar II: Occupational pension plans

Regarding the Pillar II 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 11 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 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

<u>Source</u>: "Assuralia", Wikifin.be

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

Periodic annuities[86]

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 must 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 Pillar III 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 an additional limited ceiling on the maximum tax benefit, depending on the level of the saver's yearly earnings for long-term savings products.

[86] 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 ("E" regime)

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 (€960 in 2018). Since 2012 and until 2018, a tax relief rate equal to 30% of the contributions was applied, regardless of the taxpayer's income. It resulted in a maximum tax benefit of €288 per year;

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

- the previous tax relief rate continues to be applied for any contribution less or equal to €960. Individuals still benefit from a 30% tax relief rate on their contributions.
- for any contribution above €960 and up to €1,230, a new tax relief rate equal to 25% is applied. This new tax relief rate is more advantageous for a saver, only if his /her contribution is higher than €1,153, as the tax benefit will be higher than €288in this particular case. However, if a saver contributes less than €1,153, the tax benefit will be lower than €288. For example, if a saver contributes €1,000, it will result in a tax benefit of €250, which is less advantageous than if he/she invests a contribution of €960. If a saver invests the maximum contribution of €1,230, the new tax relief system will result in a maximum tax benefit of €307.50, which is €19,50 more compared to the traditional formula.

To benefit from the new tax relief system, the taxpayer must communicate his/her choice t the financial institution; otherwise, the lower ceiling for contribution (€960) will apply and any contribution above €960 will be refunded to taxpayer's bank account.

The tax relief of pension savings products is "stand-alone". Taxpayers can receive 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%[87]; • The saver can continue investing and enjoy 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 must 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 €2,310 in 2018. 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.

[87] The capital accumulated from contributions made before 1993 is taxed by considering a theoretical return of 6.25%. For contracts subject to this taxation, the amount of taxation was levied in advance in 2012.

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 guaranteed return was lowered to 1.75% for both employee and employer contributions. Its level is now 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.[88]

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

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

effective minimum guaranteed return that will be recalculated each year by FSMA (1.75% since 2016).

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 2016, among the 199 pension plans managed by an IORP, 84 had a promise of returns (DB plans), 28 were DC plans and 87 were hybrid plans (Cash Balance, DC + rate). While newly opened plans are always DC plans, a large part of assets are still managed in plans offering promises of returns.

PensioPlus,[89] the Belgium's occupational pension plans association, reported an average return of 5.99% in 2017. 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 2017.[90]

[89] The Belgian Association of Pension Institutions (BAPI) changed its name in 2015 to PensioPlus
[90] 58 IORP participated in the annual PensioPlus' survey. They represented 17.618 billion euros under management (60% of the market share)

Table BE13. Returns of occupational pension plans managed by IORPs (%) (2000-2017)			
	Nominal return before charges, tax and inflation	**Nominal return after charges, before tax and inflation**	**Real return after charges and inflation, before tax**
2000	0.9	-0.1	-2.7
2001	-4.2	-5.1	-7.3
2002	-11.0	-11.9	-13.2
2003	10.4	9.3	7.7
2004	9.9	8.9	6.9
2005	16.0	15.0	12.2
2006	10.3	9.3	6.8
2007	2.2	1.4	-0.4
2008	-17.1	-17.7	-21.3
2009	16.6	15.7	15.7
2010	10.3	9.5	7.0
2011	0.0	-0.7	-4.0
2012	12.9	12.1	9.3
2013	7.5	6.7	5.4
2014	11.9	11.1	10.5
2015	5.2	4.5	3.9
2016	5.8	5.1	3.2
2017	6.0	5.3	3.0

Table BE14. Annual average return of occupational pension plans managed by IORPs (%) (2000-2017)	
Nominal return before charges, tax and inflation	**4.8**
Nominal return after charges, before tax and inflation	**4.0**
Real return after charges and inflation, before tax	**1.9**
Real return after charges, tax and inflation	**1.5**
Sources: PensioPlus, BETTER FINANCE calculations	

Over an 18-year period (2000-2017), occupational pension plans managed by IORPs experienced negative nominal returns before charges three times: in 2001, 2002 and 2008. Over the period 2000-2017, the annual average return after charges, tax and inflation is positive (1.48%). PensioPlus reported the average asset allocation of IORP at end-2017, as follows: 38% in equities, 43% in Fixed Income securities, 6% in Real Estate, 10% in cash and 3% in other asset classes. The proportion of fixed income assets continued to decrease in 2017, while the proportion of equities in the total assets remained high when compared to other countries.

Occupational pension plans managed by insurance companies (Branch 21 contracts)

Assuralia used to annually report net returns after charges in percentage of the total reserves in its annual report[91]. 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 of 2015 and 2016.

Nevertheless, Assuralia provided information on “Assurance Groupe” contracts on its website[92]. At the end of 2015, “*Assurance Groupe*” Branch 21 contracts invested a total amount of €158.3 billion with the following assets allocation:

- 72% in fixed income assets (of which 23% in Belgian government bonds);
- 11% in equities and UCITs;
- 11% in loans and real estate;
- 6% in other assets.

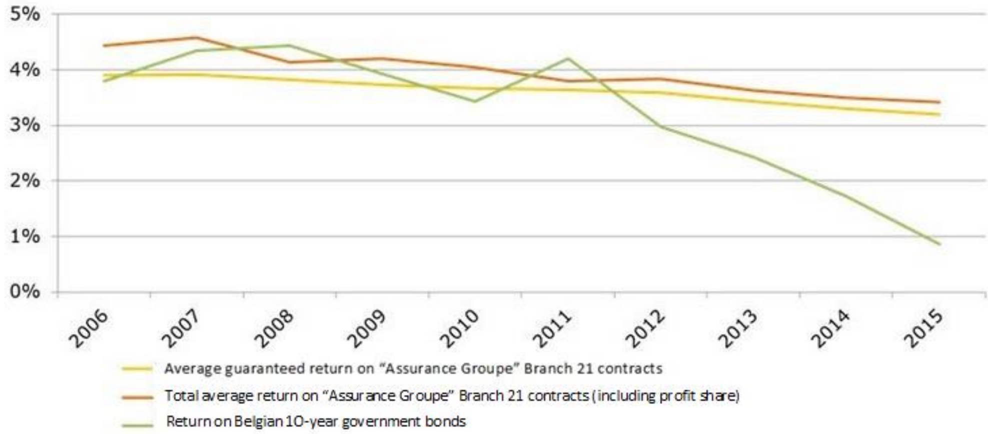
With the decline in the return on the Belgian 10-year government bonds since 2011, insurance companies were forced to decrease the guaranteed return offered to new contributions on “Assurance Groupe” Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on the past contributions until the retirement. Past reserves continue to have guaranteed returns range from 3.25% to 4.75%. In 2015, the average guaranteed return was slightly above 3%. When including the profit share, the average guaranteed return reached 3.5% of the total reserves. In addition, FSMA reported a return of 3.12% for sector pension funds managed through “Assurance Groupe” contracts in 2015.[93]

[91] In November 2017, Assuralia published its annual report including Statistics for the whole year 2016 .

[92] http://assuralia.be/fr/infos-secteur/publications-secteur/775-l-assurance-de-groupe-un-tour-d-horizon-au-niveau-du-secteur

[93] FSMA, Report on sector pension funds, June 2017

Graph BE1: Average guaranteed return on “Assurance Groupe” Branch 21 contracts



Source: Assuralia

Over a 13-year period (2002-2014), “Assurance Groupe” Branch 21 occupational pension plans experienced a positive real annual average return after charges and taxation of 2.0%.

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	2.6
2003	6.3	5.3	3.7
2004	6.3	5.4	3.4
2005	6.8	5.8	3.2
2006	6.7	5.7	3.3
2007	6.6	5.7	3.8
2008	2.0	1.2	-3.2
2009	5.4	4.6	4.6
2010	5.3	4.5	2.2
2011	4.0	3.3	-0.1
2012	5.4	4.6	1.9
2013	5.4	4.7	3.5
2014	5.5	4.8	4.3
Sources: “Assuralia”, own calculations			

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	2.5
Real return after charges, tax and inflation	2.0

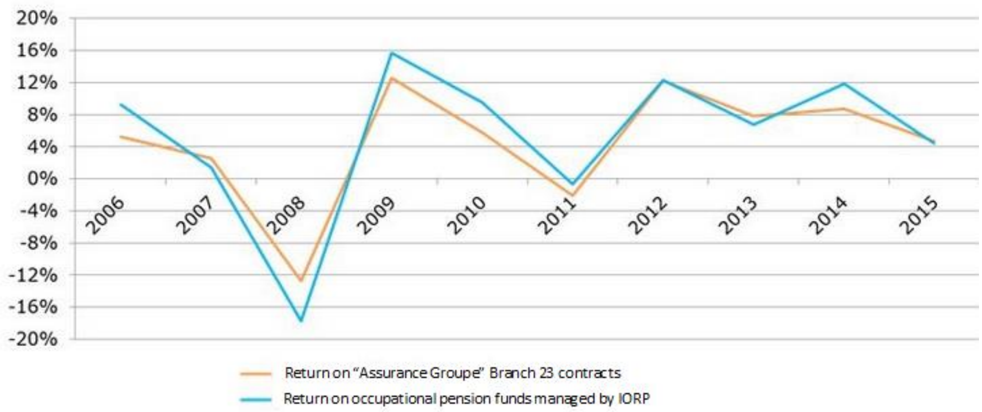
Source: "Assuralia", own calculations

Occupational pension plans managed by insurance companies (Branch 23 contracts)

"Assurance Groupe" Branch 23 occupational pension plans seem to have suffered negative real returns over the last 15 years[94]. In addition, Assuralia provides some information on "Assurance Groupe" Branch 23 contracts on its website. The following graph show the returns on "Assurance Groupe" Branch 23 from 2006 to 2015. Returns on "Assurance Groupe" Branch 23 contracts are variable and depend on the performance of underlying assets. These contracts experienced negative returns in 2008 and 2011. Their net average returns are very close to those of occupational funds managed by IORP (around 4% in 2015).

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

Graph BE2. Average return on "Assurance Groupe" Branch 23 contracts



Source: Assuralia

94 See Annex: Case analysis of a Branch 23 "Assurance Groupe" occupational pension plan.

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 recorded on an annual basis at end-2017.

Table BE17: Annual average returns of pension savings funds			
Over 1 year	**Over 3 years**	**Over 10 years**	**Over 25 years**
6.6	6.0	3.5	7.0

Source: BeAMA

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 2017.

From 2013 to 2017, TER was expressed as a percentage of total assets under management that was collected and has beenused 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 BE18. Returns on pension savings funds after expenses, inflation and taxation (%)			
	Nominal return before charges, tax and inflation	Nominal return after charges, before tax and inflation	Real return after charges and inflation, before tax
2000	-2.8	-4.0	-6.8
2001	-3.3	-4.5	-6.3
2002	-13.4	-14.5	-15.6
2003	16.0	14.6	12.8
2004	21.3	19.8	17.5
2005	18.7	17.2	14.1
2006	11.0	9.6	7.4
2007	3.8	2.5	-0.6
2008	-24.7	-25.7	-27.6
2009	19.6	18.2	17.8
2010	8.3	7.0	3.5
2011	-4.1	-5.3	-8.2
2012	12.8	11.4	9.1
2013	12.8	11.4	10.1
2014	8.6	7.2	7.7
2015	9.6	8.2	6.7
2016	4.2	2.9	0.7
2017	**7.9**	**6.6**	**4.3**

Sources: BeAma, Morningstar, BETTER FINANCE calculations

Table BE19. Annual average return of pension savings funds (2000-2017) (%)	
Nominal return before charges, tax and inflation	**5.2**
Nominal return after charges, before tax and inflation	**3.9**
Real return after charges and inflation, before tax	**1.9**
Real return after charges, tax and inflation	**1.6**

Source: BeAma, Morningstar, BETTER FINANCE calculations

Pension savings funds within the third pillar experienced negative nominal returns from 2000 to 2002, as well as in 2008 and 2011. Unlike occupational pension plans, these pension savings funds are not obliged to pay a guaranteed return to retirees. Over the 18-year period (2000-2017), they delivered relatively similar nominal returns to occupational pension plans managed by IORPs. Benefits are taxed at a flat rate of 8%[95], considering an

[95] To calculate the taxation, the following assumptions are made: the saver subscribes to the product before the age of 55 and claims for his capital at 60 years old. The tax flat rate of 8% is applied to accrued benefits in 2016. In 2015, 1% of the accrued benefits as of 31 December 2014 was levied and then deduced from the tax allowance calculated in 2016.

annual return of 4.75% during the accumulation phase, irrespective of the pension savings fund returns.

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

In order to save for their retirement, Belgians 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-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, inflation and taxation remained positive to 1.67% for Branch 21 contracts and to 1.30% for Branch 23 contracts.

Table BE20. Returns of individual life-insurance 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	4.0	2.8	1.2
2003	5.6	3.8	2.2
2004	6.3	4.8	2.8
2005	6.3	5.4	2.9
2006	5.9	5.1	2.8
2007	6.0	5.2	3.4
2008	0.8	0.1	-4.2
2009	4.9	4.3	4.3
2010	4.6	4.0	1.7
2011	3.0	2.5	-0.9
2012	5.0	4.4	1.8
2013	4.7	4.1	2.9
2014	**5.8**	**5.2**	**4.7**

Sources: "Assuralia", own calculations

Table BE21. Annual average return of individual life-insurance Branch 21 contracts (2002-2014) (%)	
Nominal return before charges, tax and inflation	**4.8**
Nominal return after charges, before tax and inflation	**4.0**
Real return after charges and inflation, before tax	**1.9**
Real return after charges, tax and inflation	**1.6**
Sources: "Assuralia", BETTER FINANCE calculations	

Branch 23 contracts experienced negative nominal and real returns in 2008 and 2011. Nevertheless, there is no available information on return for 2015 and 2016.

Table BE22. Returns of individual Branch 23 contracts (%)

	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	8.8
2006	7.5	7.1	4.7
2007	1.6	1.3	-0.5
2008	-18.2	-18.5	-22.0
2009	13.3	12.9	12.9
2010	7.5	7.1	4.7
2011	-2.6	-2.9	-6.1
2012	9.4	9.1	6.3
2013	5.9	5.6	4.3
2014	8.3	7.9	7.4

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. 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	

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 which will consider 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 an 18-year period (2000-2018), occupational pension funds managed by IORPs (pillar II) and pension savings funds (Pillar III) had annual average returns of 1.48% and 1.58% 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.

Unfortunately, we were only able to update returns for "Assurance Groupe" occupational pension plans and individual life-insurance contracts for the years 2015 and 2016. Nevertheless, Assuralia reports some information on "Assurance Groupe" contracts on its website. In 2015, "Assurance Groupe" Branch 21 offered on average nearly 3.5% of return (including profit share) and "Assurance Groupe" Branch 23 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.

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ANNEX: Case analysis of a Belgian Branch 23 - "Assurance Groupe" occupational pension plan

This individual "Branch 23" (unit-linked) insurance pension plan offers three investment options: low, medium and high depending on the equity/bond asset allocation.

The "medium" investment option provides the returns of an investment fund that can be assigned to following benchmark:[96]

- 50% equity (FTSE AW TR);
- 50% bonds (Barclay's Pan-European Aggregate Bond Index).

Real case of a Belgian life insurance (branch 23)	
Capital markets vs. Belgian Occupational pension insurance 2000-2017* performance	
Capital markets (benchmark index[97]) performance	
Nominal performance	127%
Real performance (before tax)	59%
Pension insurance performance	
Nominal performance	56%
Real performance (before tax)	10%

**End of 1999 to end of 2017*

<u>Source</u>: *BETTER FINANCE* own computation

As the table above shows:

- The real annual growth rate of the fund (before tax) on an 18-year period is slightly above 0 (0.51% - cumulative 9.52%).
- The real performance of the pension fund is disconnected and much below that of the capital market benchmark, which is positive: the performance of capital markets cannot be used as a proxy for pension savings performance, even if the capital market benchmark used is the one chosen by the asset manager.

What are the reasons for such a bad performance?

The key explanation factor is charges (fees). Whereas the benchmark does not bear any fees, the pension fund does. It appears that this fund is a fund of funds. This means it bears two layers of fees: those of the fund itself plus those of the funds it invests in.

While in the last edition (2017) BETTER FINANCE had to complain to the Belgian regulator to finally obtain the yearly charges on the exhibited fund (since it was an AIF and it did not publish a KIID), as of January 1st, 2018, AIFs distributed to retail investors must publish a Key

[96] As rated by Morningstar.
[97] Benchmark is composed of 50% bonds (Bloomberg Barclays Pan-European Aggregate Bond Index - LP06TREU) and 50% equity (2000-2017 FTSE All-World TR EUR Index - AW01), yearly re-balanced.

Information Document (KID), which comprises an annual recurring expense figure for the fund. In this case, the recurring expense figure of 2.49% is charged for managing the saver's investment.

However, the saver pays much more than that, but indirectly: the saver's money is not invested directly in transferable securities, but instead it buys units of underlying funds which (normally) directly hold financial assets. From the gross return on capital gained for each underlying fund unit a management fee will be deducted. This net return will form, in turn, the gross return on capital for the fund where the saver holds units, which again will be subject to the aforementioned management fees (2.49%).

This expense rate is very high and more than explains the huge performance. Most of these expenses could have been saved by investing in an equity index exchange-traded fund (ETF).

Table BE-A1. Charges taken from funds over a year	
This Belgian occupational pension fund	2.49%
Average European equity fund	1.89%
Average US equity fund	0.45%
Average EU equity ETF	0.31%
Average EU real estate fund	1.28%
Average EU mixed fund	1.51%
Average EU bond fund	1.01%
Average EU life insurance (life insurance)	0.88%
Average EU pension product	1.45%
Average EU life insurance	1.38%
Average EU pension mutual fund	1.15%

Source: see footnote.[98]

[98] For average EU investment products' fees, see Karel Lanoo, 'Funds, Fees and Performance' ECMI Commentary No. 54 (2 July 2018) 3, https://www.ceps.eu/system/files/KL_FeesAndFunds.pdf; for average US equity fund fee, see Patricia Oey, 'U.S. Fund Fees: Average Fund Fees Paid by Investors Decreased 8% in 2017, the Larges One-Year Decline Ever' Morningstar Manager Research (26 April 2018) 3, https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/USFundFeeStudyApr2018.pdf?cid=EMQ_.

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