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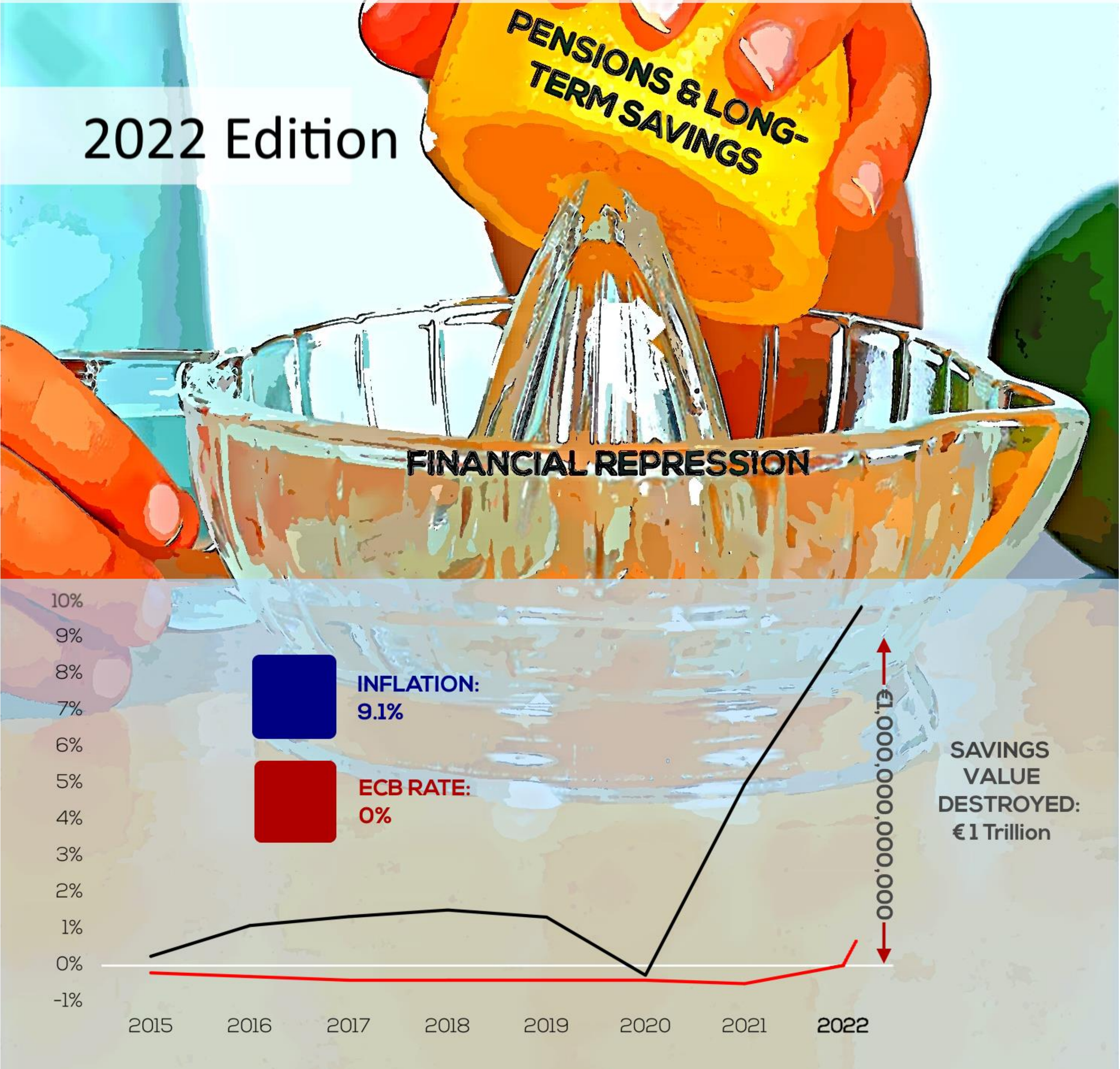
Long-Term & Pension Savings | The Real Return

2022 Edition



Pension Savings: The Real Return

2022 Edition

A Research Report by BETTER FINANCE

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Pension Savings: The Real Return

2022 Edition

Executive Summary

> *"With the two of three worst financial meltdowns of the past hundred years occurring in the past 12 years, can our societies rely on financial markets to deliver decent retirement outcomes for millions around the world?"*[1]

Strong equity returns in 2021 slowed down by inflation, which is here to stay

How much did pension savers earn on average?

In this report, we aim to provide pension comparisons on every front possible. The aggregate summary return tables compare the annual average rates of returns between occupational/collective (Pillar II) pension schemes and between voluntary/individual ones (Pillar III) on 5 periods: 1, 3, 7, 10 years. These standardised periods eliminate inception and market timing biases, allowing to "purely" compare performances between different pension schemes. For information purposes, we also show the average return since data is available (last column).

Aggregate summary return table	Pillar II								
	1 year		3 years		7 years		10 years		max. available*
	2021	2020	2019-2021	2018-2020	2015-2021	2014-2020	2012-2021	2011-2020	
Austria***	3.08%	1.40%	4.12%	1.23%	1.92%	2.35%	2.68%	1.79%	1.56%
Belgium	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Croatia	2.55%	8.06%	3.38%	2.81%	4.76%	4.99%	4.82%	4.10%	3.25%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	1.30%	7.97%	4.60%	2.10%	1.61%	2.13%	2.35%	1.31%	0.75%
France	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	n.a.	3.53%	n.a.	2.23%	n.a.	2.63%	n.a.	2.46%	2.35%
Italy	1.44%	7.30%	3.96%	1.85%	1.97%	2.81%	3.30%	2.66%	0.86%
Latvia	2.21%	8.43%	4.22%	1.12%	1.15%	1.54%	2.30%	1.45%	0.05%
Lithuania	5.97%	14.92%	8.60%	4.72%	3.95%	4.07%	4.60%	3.52%	1.95%
Netherlands	0.85%	6.23%	6.58%	5.01%	3.84%	5.79%	5.00%	5.26%	2.80%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	-2,58%	2,59%	1,64%	1,81%	1,23%	2,68%	2,83%	2,95%	2,04%
Slovakia	3.38%	5.37%	3.13%	0.70%	1.59%	1.50%	1.43%	0.79%	0.21%
Spain	1.52%	2.10%	2.25%	2.40%	3.02%	3.86%	2.56%	2.86%	0.86%
Sweden	13.50%	6.45%	17.44%	8.23%	n.a.	n.a.	n.a.	n.a.	10.59%
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*Source: BETTER FINANCE own composition; *whole reporting period differs between countries; **UPF data used as proxy for Pillar II; ***Pension funds used as proxy for Pillar II, 2021 data is estimated; data for Netherlands Pillar II is only occupational pension funds*

[1] Amin Rajan (Crate Research), 'Coronavirus Crisis Inflicts a Double Blow to Pensions' (FT.com, 15 April 2020) available at: https://www.ft.com/content/bd878891-4f20-46c3-ab23-939162a85d9c.

Voluntary pension products vary in market share based on the jurisdiction: in some cases, insurance-based products are more prevalent, whereas in some countries pension funds are preferred. The table below shows the average real net returns for supplementary pensions by standardised holding periods.

Aggregate summary return table	Pillar III								
	1 year		3 years		7 years		10 years		whole reporting period*
	2021	2020	2019-2021	2018-2020	2015-2021	2014-2020	2012-2021	2011-2020	
Austria*	0.44%	1.27%	0.96%	2.65%	1.29%	3.09%	1.50%	3.30%	1.95%
Belgium	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Croatia	2.00%	-1.41%	2.97%	2.13%	3.48%	4.57%	4.41%	3.75%	3.51%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	6.30%	4.51%	8.14%	2.37%	3.04%	3.19%	4.00%	2.04%	1.78%
France*	0.37%	1.13%	1.55%	0.65%	1.07%	1.43%	1.63%	1.47%	1.47%
Germany**	-3.72%	2.68%	-0.16%	1.30%	0.64%	1.62%	1.11%	1.64%	1.20%
Italy	1.92%	0.03%	3.04%	1.18%	2.18%	2.58%	3.18%	2.49%	1.91%
Latvia	-1.01%	2.14%	3.18%	0.82%	0.59%	1.75%	2.17%	1.58%	1.34%
Lithuania	0.54%	4.83%	4.65%	2.29%	2.17%	2.85%	3.37%	1.98%	1.03%
Netherlands	-2.29%	1.83%	-0.04%	1.39%	1.19%	1.14%	0.33%	0.27%	0.02%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	-3,07%	0,99%	0,60%	0,35%	0,22%	1,53%	1,90%	1,91%	-1,00%
Slovakia	1.92%	1.30%	3.03%	0.08%	0.92%	1.00%	1.39%	0.44%	0.71%
Spain	2.10%	0.86%	1.58%	1.33%	2.20%	3.08%	2.26%	1.60%	0.35%
Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*Source: BETTER FINANCE own composition; *whole reporting period differs between countries; ** Riester pension insurances contracts. Acquisition charges are included and spread over 5 years*

Unfortunately, due to unavailability of data breakdowns, for some country cases (UK, Belgium, Denmark, Poland) we were not able to calculate the annual real average returns by Pillar. Nevertheless, the results by retirement provision vehicle are available in Graphs 19 and Table 20 in the *General Report* and on an annual basis (nominal, net and real net return) in each country case).

Note: For a few pension systems analysed in the report, the data available on retirement provision vehicles clearly distinguishes between Pillar II and Pillar III (such as Romania or Slovakia). In other countries, where pension savings products may be used for both Pillars, the categorisation is more difficult since return data is not separated as such. However, for reasons of simplicity and comparability, the authors of the report have put in all the necessary efforts to correctly assign each product according to the pillar it is, or should be, used for.

Pension Savings: The Real Return

2022 Edition

General Report

One can supervise only what one can measure:
Why is this long-term savings performance report (unfortunately) unique?

I. INTRODUCTION

2022 marks the anniversary edition of BETTER FINANCE's Long-Term and Pension Savings Report. For 10 years, BETTER FINANCE aggregated and updated data and information on pension systems' structure, characteristics, charges, tax, and real net returns in a unique publication in this field.

Our report grew from the initial three country cases (Denmark, France, and Spain) covered in the 2013 report ("Private Pensions: The Real Return"[11]) to reach 18 jurisdictions and true long-term reporting horizons: where available, 22 years of gross, net, and real net returns of private occupational and voluntary retirement provision vehicles.

Today, BETTER FINANCE's research on the real returns of long-term and private pension savings comprises:

- this report (full version);
- the summary booklet;
- the *pensions dashboard*, an interactive tool on BETTER FINANCE's website to view and compare returns between private retirement provision vehicles.

1.1. The actual performance of this market is generally unknown to clients and to public supervisors

This report was built to respond to one of the big problems for the pensions market in the EU: lack of comprehensive and comparable data on real net performances. So far, two other publications also aim to provide transparency on the topic, but have a limited scope and are too general to be useful for the average pension saver:

[11] Link for the print version available here: http://www.betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_Study_EN_website.pdf.

Table GR1. Comparison BETTER FINANCE report with EIOPA/OECD		
	EIOPA	OECD
Private pension products	Only insurance-based pension products (unit-linked and profit-participation) based on surveys (68 providers/17 EU Member States/200 products)	Only pension funds (20 EU jurisdictions)
Distinction between pillars (occupational vs voluntary)	No	No
Time horizon	5 years	15 years max.
Data/information on public pension systems	No	Yes
Pension system description (structure, conditions, costs, taxes)	No	Yes
Asset allocation	No	Yes
Gross returns	No	No
Nominal net returns	Yes	Yes
Real net returns	Yes	Yes
Real net returns, after tax	No	No

Source: BETTER FINANCE own research

Our report closes this informational gap for pension savers in 17 EU Member States. This is in line with the European Commission's "Action" to improve the transparency of performance and fees in this area (as part of its Capital Markets Union – CMU - Action Plan) and it corresponds with the current tasks of EIOPA in the area of personal pension products with respect to past performance and costs comparison.[12]

It is the ambition and challenge of this research initiated by BETTER FINANCE and its partners to collect, analyse and report on the actual past performance of **all** long-term and pension savings products.

Reporting the real net return[13] of pension saving products should be:

- the long-term return (at least covering two full economic and stock market cycles, since even long-term returns are very sensitive to entry and exit dates);
- net of all fees, commissions and charges borne directly or indirectly by the customer;

[12] The European Supervisory Authorities (ESAs) have a legal duty to collect, analyse and report data on "consumer trends" in their respective fields (Article 9(1) of the European Regulations establishing the three ESAs).

[13] A limitation of the present report is that it does not take into account real estate as an asset for retirement. The proportion of households owning their residences varies greatly from one country to another. For example, it is especially low in Germany, where a majority of households rent their residences and where home loan and savings contracts have consequently been introduced as the most recent state-subsidised pension savings scheme. For the time being, returns on pension savings are all the more important since a majority of retirees cannot rely on their residential property to ensure a decent minimum standard of life. However, residential property is not necessarily the best asset for retirement: indeed, it is an illiquid asset, and it often does not fit the needs of the elderly in the absence of a broad use of reverse mortgages. The house might become too large or unsuitable in case of dependency. In that case, financial assets might be preferable, on the condition that they provide a good performance.

- net of inflation (since for long-term products only the real return matters; that is the right approach taken by OECD as mentioned above);
- when possible, net of taxes borne by the customer (in the USA it has been mandatory for decades to disclose the past performance of mutual funds after tax in the summary of the prospectus).

Table GR2. BETTER FINANCE report structure and scope	
Structure	1. Executive summary 2. General report (overview of data and findings) 3. Individual country cases (Austria, Belgium, Bulgaria, Croatia, Denmark, Estonia, France, Germany, Italy, Latvia, Lithuania, Poland, the Netherlands, Romania, Slovakia, Spain, Sweden, UK until 2019), representing 87% of EU27 population
Time horizons	22 years (December 1999 – December 2021) or maximum available
Products covered	1. Occupational pension pillar (pension funds, insurance-based pension products, other defined-benefit/contribution vehicles) 2. Voluntary pension pillar (pension funds, insurance-based pension products)
Public pensions	Structure, coverage, funding type, entry/pay-out conditions
Occupational pensions	Architecture (types of products offered), coverage, assets and/or asset allocation, costs, applicable tax regime(s)
Voluntary (individual pensions)	Architecture (types of products offered), coverage, assets and/or asset allocation, costs, applicable tax regime(s)
Returns	1. Gross returns (before costs, tax, and inflation – where available) 2. Nominal net returns (before tax and inflation – where available) 3. Real net returns, before tax, inflation deducted 4. Real net returns, after tax (where available)
Data sources	Publicly available data and information sources

We have chosen a period starting from 31 December 1999 because pension savings returns should be measured over a long-term horizon, and because it includes two market upturns (2003-2006 and 2009-2019) and two downturns (post dot com bubble of 2001-2003 and the 2008 financial crisis).

1.2. Information on the returns of long term and pension savings is deteriorating

This report shows that it is not an impossible, but a very challenging task for an independent expert centre such as BETTER FINANCE to collect the data necessary for this report since quite a lot of data are simply not available at an aggregate and country level, especially for earlier years. The complexity of the taxation of pension savings in EU countries makes it also extremely difficult to compute after tax returns.

Once more, for 2021, we find that information on long-term and pension savings returns is actually not improving but on the contrary deteriorating:

- ***Insufficient information***: for example the Belgian insurance trade organisation Assuralia no longer reports the returns of insurance-regulated « Branch 21 » occupational and personal pension products since 2014, and the national supervisor FSMA does not do it either; in Bulgaria, the necessary data for Professional Pension Funds (pillar II and III) is no longer available since 2018 and the transfers to Pillar I (data from NSSI) are not disclosed; in the UK, the survey conducted by the Department for Statistics has been discontinued and information on British pension funds stopped at 2017;
- ***Late information***: at the time of printing, still a lot of 2021 return data have not been released by the national trade organisations or other providers. OECD has published preliminary data for December 2021, but on a limited number of jurisdictions and only for pension funds; moreover, considering that, in many countries, pension funds are not the most popular vehicle, this constitutes a large information gap.
- ***Unchecked information***: the principal source remains the national trade organisations, their methodology is most often not disclosed, return data do not seem to be checked or audited by any independent party, and sometimes they are only based on sample surveys covering just a portion of the products.

Moreover, savvy retail savers and EU public authorities must rely on private databases (and divergent methodologies) to learn some of the costs and performances of "retail" saving products. This is because the PRIIPs Key Information Document (KID) eliminated pre-contractual disclosure of past performance and actual costs for UCITS and requires return and cost estimations instead for all "retail" investment products, including pension products. This severe setback in transparency and comparability is completely inconsistent with the CMU initiative. Four high-level initiatives have struggled to repair this situation, without success: the NextCMU Report, the High-Level Forum Final Report, the ECON CMU Report and the ESAs' draft RTS on PRIIPs Level 2. BETTER FINANCE continues to deplore the content of the PRIIPs KID.

2. Value for Money: how to achieve pension adequacy?

Public pension authorities typically stress two requisites to achieve "pension adequacy":

a) the need to start saving as early as possible;
b) the need to save a significant portion of one's income before retirement activity income: "*to support a reasonable level of income in retirement, 10% - 15% of an average annual salary needs to be saved*".[14]

BETTER FINANCE continues to disagree: saving earlier and more is not enough. A third and even more important factor is the need to deliver positive and decent long-term **real net** return (i.e., net of inflation and fees). A simple example will illustrate why:

[14] World Economic Forum White Paper: 'We'll live to 100 – How can we afford it?' May 2017

Assuming no inflation and saving 10% of activity income for 30 years,[15] the table below shows that **unless long-term net returns are significantly positive** (in the upper single digits), **saving early and significantly will not provide a decent pension.**

Annual net return	Replacement income
negative 1%	10%
Zero	12%
2%	17%
8%	49%

Moreover, in light of the special analysis undertaken in this report on *financial repression*, savers must also be aware and take into account the effects of ***inflation***, particularly since currently it reaches historical records.

What is pension adequacy?

This question ultimately revolves around the level of retirement income (pension) compared to the pre-retirement income. The EU defines *pension adequacy* indirectly through three objectives that a pension system should achieve:

1) **income replacement**: ensure a minimum standard of living at retirement,
2) **sustainability**: ensure that the public pension system is sustainable; and
3) **transparency**: inform workers about the need to plan for their retirement.[16]

On income replacement, the EU's Open Method of Coordination on Social Protection and Social Inclusion[17] further specifies that pensions should:

- *in general*, be at a certain level so that the standards of living pre-retirement are maintained, to "*the greatest possible extent*", after retirement;
- *for special cases*, ensure a minimum standard of living at retirement so as to avoid pension poverty.

To measure the two above objectives, two indicators are generally used: the *aggregate replacement ratio*,[18] showing how big the gross pension is compared to the salary, and the

[15] As recommended by Public Authorities assuming 25-year life expectancy at retirement, gross of fees and taxes.
[16] Directorate-General for Employment, Social Affairs and Inclusion of the European Commission and the Social Protection Committee, *Pension Adequacy in the European Union 2010-2050* (May 2021) European Commission, available at: file:///C:/Users/Stefan/Downloads/pension%20adequacy%20in%20the%20european%20union%202010-2050-KE3012757ENN.pdf.
[17] See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - "*A renewed commitment to social Europe: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion*" {SEC(2008) 2153} {SEC(2008) 2169} {SEC(2008) 2170} {SEC(2008) 2179}, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52008DC0418.
[18] According to Eurostat, the *aggregate replacement ratio* is the ratio of the median individual gross pensions of 65-74 age category relative to median individual gross earnings of 50-59 age category, excluding other social benefits.

theoretical replacement rate, showing the instant change (drop/increase) in income when retiring from active life:

$$Aggregate\ replacement\ ratio = \frac{gross\ median\ pension\ (pop.aged\ 65 - 74\ yo)}{gross\ median\ income\ (pop.aged\ 50 - 59\ yo)}$$

$$Theoretical\ replacement\ ratio = \frac{pension\ in\ the\ first\ year\ of\ retirement}{income\ in\ the\ last\ year\ of\ work}$$

The International Labour Organisation obliges parties to the Treaty to guarantee a minimum 40% of the previous earnings (prior to retirement) after 30 years of contributions;[19] the same threshold is used by the European Code of Social Security.[20] However, an actual threshold for pension adequacy was never agreed, although EU Member States agree on its objectives (to prevent old-age poverty, to replace income at a rate to *maintain* the standard of living, to be sustainable).

The reality is that pension adequacy[21] comprises two additional components, besides the actual *pension vs salary* ratio:

- the time spent to earn the pension vs the time spent receiving it;
- the amount of contributions to pension provision, namely mandatory (State) schemes and voluntary (occupational/individual) ones; put simply, *pension savings*.

To achieve *pension adequacy*, retirement benefits altogether (State and private pensions) should amount to at least 70%-80% of late working life gross salary.

Currently, the aggregate replacement rate (mostly State pension) is very low across the countries in scope of our report: fourteen out of seventeen jurisdictions provide a replacement rate lower than 60% for over more than 30 years of working life.

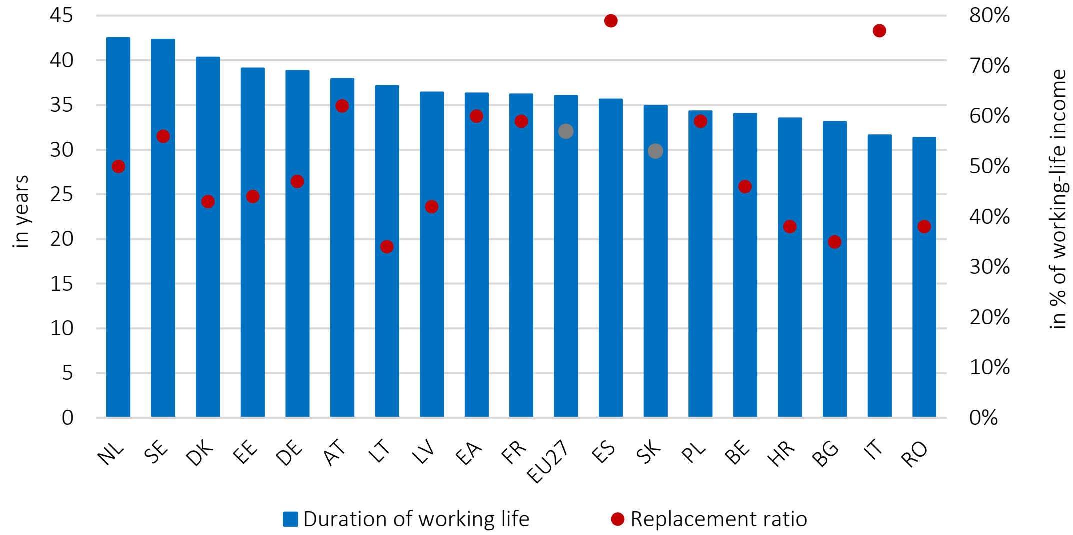
The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions) – See Eurostat, *Aggregate Replacement Ratio for Pensions (excluding other social benefits) by sex*, available at: https://ec.europa.eu/eurostat/databrowser/view/tespn070/default/table?lang=en.

[19] Art. 67 of Convention C102 on Social Security (Minimum Standards) of the International Labour Organisation, available at: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C102; Art. 29 of the later adopted Convention C128 on Invalidity, Old-Age and Survivors' Benefits Convention of the International Labour Organisation (available here: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:55:0::NO::P55_TYPE,P55_LANG,P55_DOCUMENT,P55_NODE:CON,en,C128,/Document) required a higher threshold, i.e. 45%.

[20] Art. 67, Schedule to Part XI, of the European Code of Social Security, available at: https://rm.coe.int/168006b65e.

[21] Here we take only the financial point of view, but there are several other factors (non-financial) that contribute to "*maintaining the standard of life at retirement*", such as home ownership, sources of income, employment opportunities and access to non-financial benefits – see European Commission, *European Semester Thematic Factsheet: Adequacy and Sustainability of Pensions* (2017) European Commission, p. 3, available at: https://ec.europa.eu/info/sites/default/files/file_import/european-semester_thematic-factsheet_adequacy-sustainability-pensions_en_0.pdf.

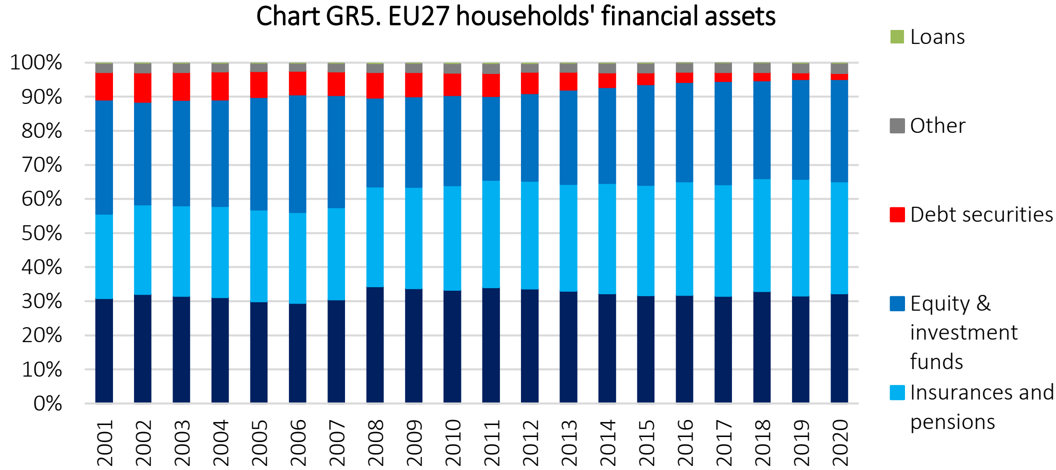
Chart GR4. Pension adequacy across jurisdictions



Source: own composition based on Eurostar data; *EU27 replacement ratio corresponds to 2019; Slovakia replacement ratio corresponds to 2020

There has been a shift from the full reliance on the public scheme of redistribution (tax-funded defined-benefit) to a more capital markets reliant system, where the main pension income stream should come from private pension products. Pension performances are subject to inflation and to tax, which eat into the retirement pot.

Chart GR5. EU27 households' financial assets



Source: BETTER FINANCE based on Eurostat data

Our findings clearly confirm that capital market performances have unfortunately very little to do with the performances of the actual savings products distributed to EU citizens. This is particularly true for long-term and pension savings. The main reason is the fact that most EU citizens do not invest the majority of their savings directly into capital market products (such as equities and bonds), but into "packaged products" (such as investment funds, life insurance contracts and pension products).

3. Performance: capital markets are not a proxy for retail investments

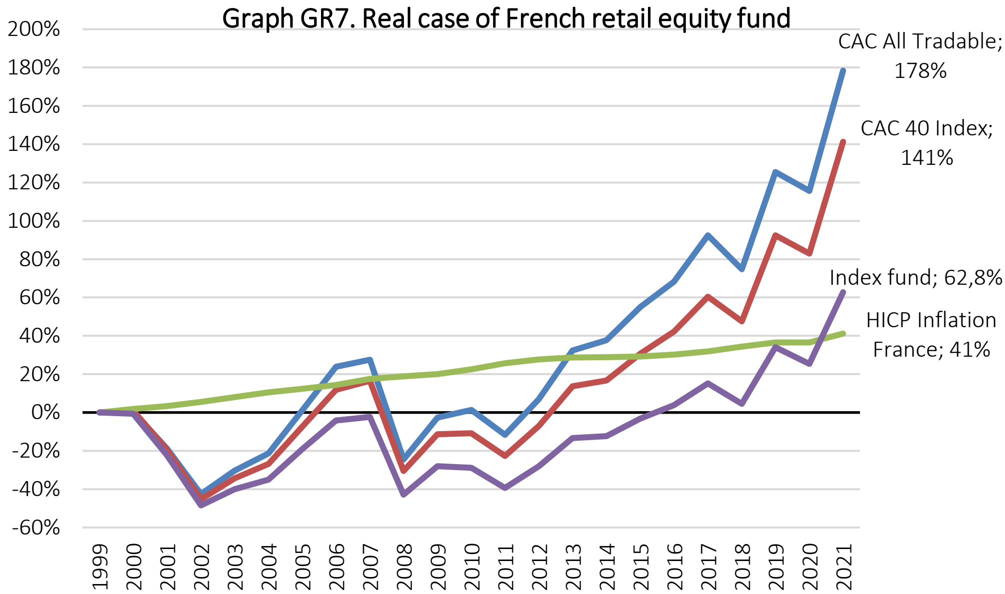
One could then argue that insurance and pension products have similar returns to a mixed portfolio of equities and bonds, since those are indeed the main underlying investment components of insurance and pension "packaged" products. However, this is not true as the share of packaged products and debt instruments are dominant in most pension portfolios. Realities such as fees and commissions, portfolio turnover rates, manager's risks, etc., invalidate this approach.

Table GR3 and Graph GR4 below show two striking – but unfortunately not uncommon – real examples of this largely ignored reality: capital market performance is not a valid proxy for retail investment performance and the main reasons for this are the fees and commissions charged directly or indirectly to retail customers. The European Commission itself publicly stressed this fact (see footnote 2 above).

Table GR6. Real case of a Belgian life insurance (branch 23)	
Capital markets vs. Belgian individual pension insurance 2000-2021 performance	
Capital markets (benchmark index*) performance	
Nominal performance	288%
Real performance (before tax)	183%
Pension insurance performance (same benchmark)	
Nominal performance	182%
Real performance (before tax)	116%

*Source: Sources: BETTER FINANCE own computations based on Morningstar public website; *Benchmark is composed of 50% bonds (LP06TREU) and 50% STOXX All Europe Total Market Return*

The real case above illustrates a unit-linked life insurance product (Pillar III in Belgium). The pension product's nominal return amounted to less than two thirds of its corresponding capital market benchmark's return.



<u>Source</u>: Own elaboration based on Graph FR3 in the French chapter

The real case above illustrates an investment fund domiciled in France, a so-called retail CAC 40 "index" fund.[22] The fund actually underperformed the relevant equity index by 78.5 p.p. after 22 years of existence (1.85% per year), with the performance gap fully attributable to fees. The fund has also massively destroyed the real value of its clients' savings, as inflation has been almost twice as high as its nominal performance. It is quite surprising that with such a huge return gap vis-à-vis its benchmark, this fund is still allowed to portray itself as an "index-tracking" one, and that no warning is to be found on the Key Information Document (KIID) of the fund.

4. European Pension returns outlook

Our research findings show that most long-term and pension savings products did not, on average, overperform a broad capital markets index (balanced 50% equity – 50% bond), and in one too many cases even destroying the real value for European pension savers (i.e., provided a negative return after inflation). Based on our calculations and available data, 37 out of the 41 retirement provision vehicles analysed underperformed European capital markets by an average 1.93% per year. Moreover, three out of these 37 even delivered real negative performances over long-term periods (between 15 and 22 years).

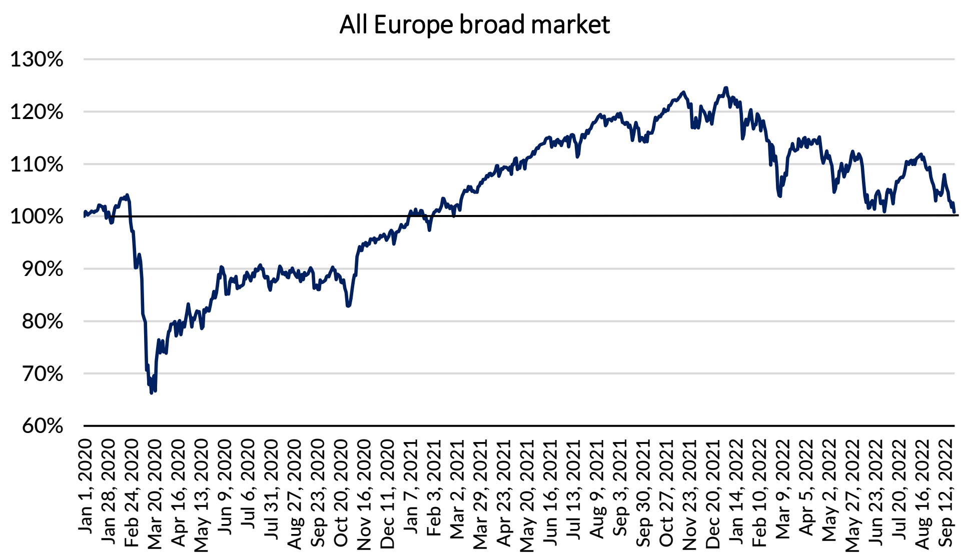
At the time of writing, the overall mid-term outlook for the adequacy of European pension savings is worrying when one analyses it for each of these main return drivers:

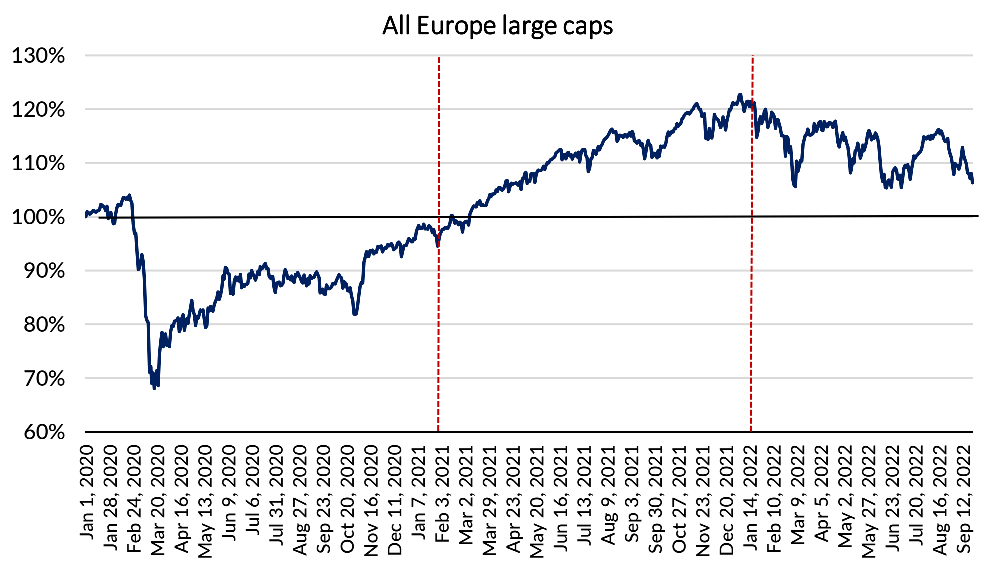
a) it is unlikely that the European bond markets will come any closer to the extraordinary returns of the period ended in 2020 for bonds due to the continuous

[22] Wrapped in an insurance contract as suggested by the distributor.

fall of interest rates, currently at rock-bottom levels; moreover, the reversal of quantitative easing programmes of Eurozone central banks will further affect the returns on sovereign bonds; the negative impact of this foreseeable trend in bond returns on pensions' returns will be reinforced by a higher proportion of bonds in pension products' portfolios in recent years; this is all the more relevant due to monetary policy response to the health-generated recession;

b) the strong growth of equities in 2020 and 2021 is already reverting, with the European all country broad equity index reaching pre-2020 levels and the large caps market also close by;

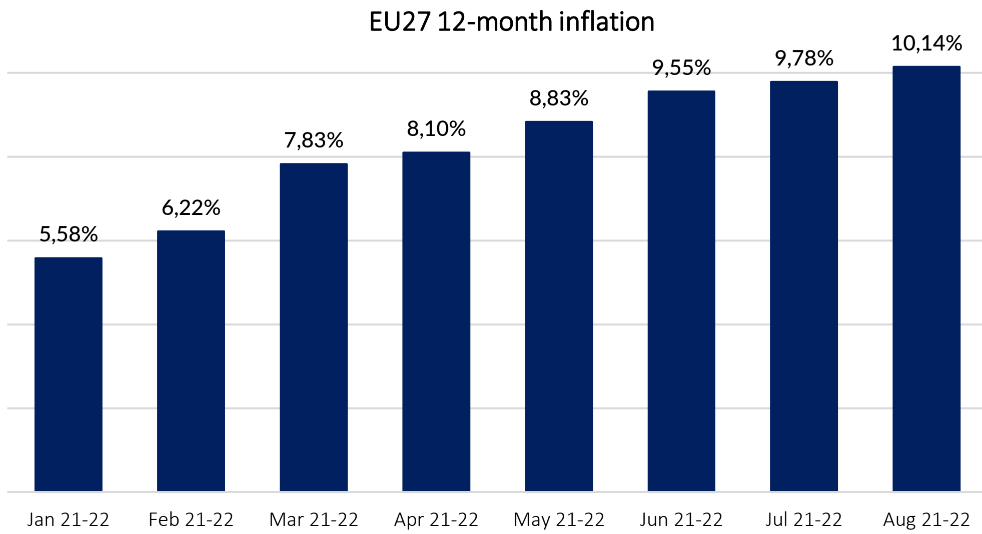


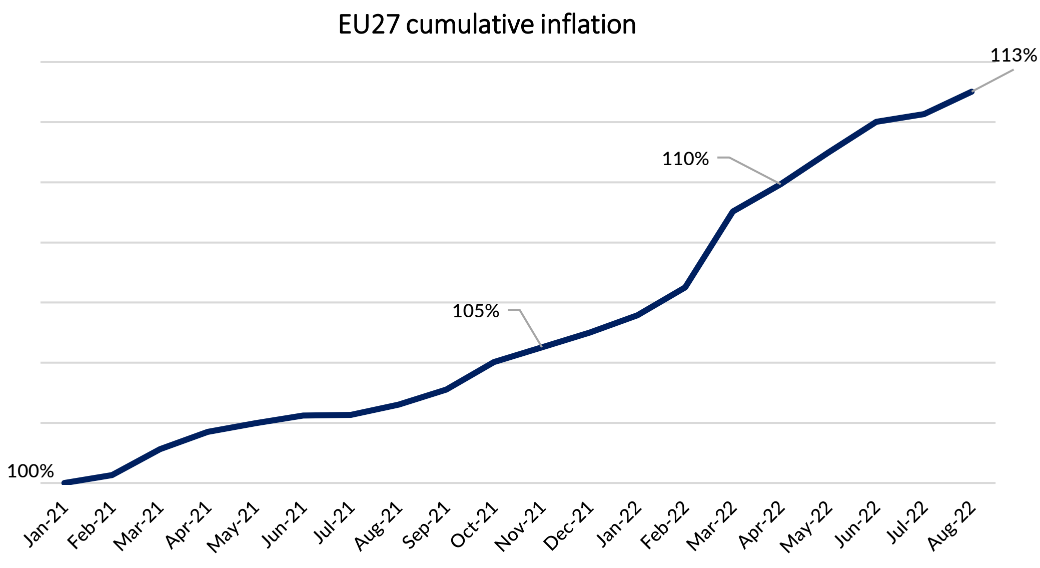


Source: Own composition based on MSCI data

c) costs and charges, as far as our data indicates, are not significantly improving;

d) inflation already took a heavy toll on pension returns in 2021 and it will be much, much stronger in 2022 due to record rates;





Source: Own composition based on Eurostat data

e) Taxes on long-term and pension savings do not show any significant downward trend either.

Country Case: Belgium

Sommaire

En Belgique, le système de retraite est constitué de trois piliers. Le premier pilier par répartition reste le plus important des trois piliers. Les retraités bénéficient d'un taux de remplacement moyen de 61.9% en 2020. 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 80% et 68% 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 22 ans (2000-2022), les fonds de pension gérés par les IRP (pilier 2) et les fonds d'épargne retraite (pilier 3) ont eu un rendement réel annuel moyen après charges de 2,27% et 1,9% 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 2018, le rendement garanti moyen était légèrement inférieur à 3%. En raison, du manque d'informations publiques, il est plus difficile de fournir des informations sur les rendements des contrats d'assurance-vie individuels souscrits dans le cadre du pilier 3.

Summary

The Belgian pension system is divided into three pillars. The first PAYG pillar is still important among the three pillar and provides on average a replacement rate of 61.9% in 2020. Pillar II and Pillar III are both based on voluntary contributions. Numbers of individuals covered by pillar II and pillar III pension schemes continue to grow rapidly. Respectively 80% and 68% of the active population is covered by these pillars. In both pillar II and pillar III, pension scheme

can take the form of a pension fund (managed by an IORP in pillar II and by a bank in pillar III) or can be an insurance contract ("Assurance Groupe" contracts in pillar II and individual life-insurance contracts in pillar III).

Over a 22-year period (2000-2022), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) had annualized real performance after charges of 2.27% and 1.9% 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 the retirement. Past reserves continue to have guaranteed returns range from 3.25% to 4.75%. In 2018, the average guaranteed return was slightly under 3%. Due to a lack of information, it is more difficult to provide return information on individual life-insurance contracts subscribed in the framework of pillar III.

Introduction

The Belgian pension system is divided into three pillars:

Table BE1.1 Multi-pillar pension system in Belgium		
PILLAR I	**PILLAR II**	**PILLAR III**
State Pension	Funded pension *The Supplementary Pension Law (the Vandenbroucke Law) implemented in 2003*	Voluntary pension
Federal Pension Service (SFP)	IORP and Insurance companies	Banks (pension savings fund) and Insurance companies (pension savings insurance and long-term savings plans)
Mandatory	Voluntary	Voluntary
Publicly managed	Privately managed pension funds and "Assurance Groupe contracts"	Privately managed pension funds and life-insurance contracts
PAYG	Funded	Funded
Earnings-related public scheme with a minimum pension	DB (Defined Benefits scheme) / DC (Defined Contribution scheme) Individual retirement accounts	
	Quick facts	
Number of old-age pensioners (as of 1st January 2021): 2,267,868	IORP: 184 Insurance Companies:27	Pension savings funds: 21 life insurance retirement savings product
Average old-age pension: €1,214€	AuM: €125.5 bn (in 2020)	AuM: €53.29 bn (in 2021)
Average income (gross): €3,758 (in 2019)	Participants: 4. 030 million	Participants: 3.4 million
Men and women's average replacement ratio: 61.9% (2020)	Coverage ratio: 80% of active population is affiliated to a pension product, being active or dormant	Coverage ratio: 68%

First Pillar

The Belgian Pillar I is organised as a Pay-As-You-Go (PAYG) pension system consisting of three regimes: one for employees in the private sector, one for the self-employed individuals and one for civil servants. The legal retirement age is 65 for both women and men. It used to be 60 for women until 1993 but was progressively increased to reach 65 in 2010. The Act of 10 August 2015 increases the retirement age imposed by law to the age of 66 by 2025 and 67 by 2030. Pillar I pensions are PAYG systems based on career duration and income earned. A complete career equals to 45 working-years. The calculation of the retirement pension depends on the individual's status, his/her career and his/her salary earned throughout his/her career. The amounts can therefore vary greatly from person to person. In 2020, the net replacement rate from the PAYG system for both men and women (with an average working wage) was 61.9%. 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 €1,690.01 if he/she lives within a household or € 1,352.44 if he/she lives alone[42].

Second Pillar

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

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

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

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

The Supplementary Pensions Act reform entered into force as of 1 January 2016. It amended the Act of 28 April 2003 by introducing the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030). Supplementary pension benefits will be paid at the same time as the legal pension's effective start. Previously, some

[42] These amounts apply starting from the 1st of July 2021

occupational pension plans allowed early liquidation: lump sum payments or annuities from supplementary pension could be paid from the age of 60. Conversely, employees who decide to postpone their effective retirement when having reached the legal pension age, have the possibility to claim their supplementary pension or to continue to be affiliated to the pension scheme until their effective retirement.

Moreover, many supplementary pension plans provided financial compensations to offset the income loss employees may encounter when they end prematurely their career. As of January 1st, 2016, all these existing beneficial anticipation measures were abolished. Affiliates who reached the age of 55 years on or before 31 December 2016 can still benefit from these existing measures. On the 1st of January 2021, approximatively 4.030 million Belgians (80% of the active population) were covered by occupational pension plans:

- 3.430 million employees were covered either by their company or by their sector of activity;
- 355,660 self-employed individuals were covered by supplementary pension plans;
- 244,858 individuals were covered both by their company or by their sector of activity and by a supplementary pension plan dedicated to self-employed.[43]

The number of Belgian covers by occupational pension plans increased by 2% between 2020 and 2021.

Third Pillar

The third pillar's purpose is to provide Belgians with individual private and voluntary pension products, which allow them to have tax reliefs from their contributions. There are two types of available products for subscription: pension savings products managed either by asset management companies or by life insurance companies and long-term savings products managed by insurance companies. This pillar is significant in Belgium when compared to other EU member states. The tax rate applied to accrued benefits from pension savings products (funds or insurance) was lowered from 10% to 8% in 2015, in order to encourage savings in the framework of the third pillar.[44] The third pillar covered more than two thirds of the active population of Belgium, with 34% of workers subscribing to a life insurance retirement savings product (1.7 million Belgians) and 34% being covered by pension savings funds (1.7 million Belgians).

The real net returns (before taxes) of the main retirement provision vehicles in Belgium are presented in the table below based on 5 recommended holding periods: 1 year (2021), 3

[43] Source: FSMA's publication: Le deuxième pilier de pension en images. Les pensions complémentaires expliquées. Situation au premier janvier 2021.
https://www.fsma.be/sites/default/files/media/files/2021-11/apercusectoriel_2021.pdf
Data presented in this publication were provided by the DB2P who 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.

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

years (2019-2021), 7 years (2015-2021), 10 years (2012-2021), and since the earliest data available.

Summary Table BE1 – Real net returns of Belgian pension vehicles					
	Pillar II			Pillar III	
	IORP	"Assurance Groupe Branch 21"	Pension savings funds	Life Insurance Branch 21 contracts	Life Insurance Branch 23 contracts
2021	3.07%	na	4.8%	na	na
2019-2021	7.05%	na	6.7%	na	na
2015-2021s	3.48%	na	3.0%	na	na
2012-2021	5.07%	na	4.8%	na	na
Since the earliest data available	Since 1985 (source Pensio Plus): 4.63%	2002-2014: 2.54%	1996-2021 (source BeAma): 5.9%	2002-2014: 1.94%	2005-2014: 1.57%

Source: Tables BE13-BE19

Pension Vehicles

Pillar II: Occupational pension plans

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

- Company pension plans;
- Sector pension plans (CBAs);
- Supplementary pension plans for self-employed individuals, company directors and an additional pension agreement for self-employed as individuals (PLCI, PLCDE, PLCIPP).
- Supplementary pension plan for employees (PLCS)

In the following section devoted to occupational pension plans, the available data reported in Tables BE2 to BE5 were provided by the Financial Services and Markets Authority (FSMA), 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 pension products provider[45]). Every two years, the FSMA also reports detailed information on sector pension plans and supplementary pension plans for self-employed individuals. Information on "Assurance Groupe" contracts was reported by Assuralia (for Branch 21 contracts) and by the National Bank of Belgium (for Branch 23 contracts).

Management of occupational pension plans

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

Institutions for Occupational Retirement Provision (IORP)

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

FSMA reported the following data on IORP in 2020.

- 184 occupational pension plans were managed by an IORP and the number of affiliates to IORPs decreased to 2,041,739 against 2,055,434 in 2019.
- the number of affiliates to sector pension plans managed by IORPs stabilised to 1,539,570. It still represented the largest part in the total number of affiliates (75.4%), whereas their reserves (€5.8 billion) represented only 14.6% of the total reserves.
- Three supplementary pension plans for self-employed individuals (€2.2 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 31.6%, the rest being managed by insurance companies through Branch 21 and Branch 23 contracts, described below.

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

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

- "Branch 21 contracts" are occupational plans, offering a guaranteed return on contributions made by employers and employees (1.75% since January 1st, 2016). The insurance companies who provide these contracts bear the risk and pay the guaranteed return in addition to a profit-sharing. All sector pension plans and all supplementary pension plans for self-employed individuals managed by insurance

[45] 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.

companies take the form of "Branch 21 contracts". Most of company pension plans are also managed through "Branch 21 contracts" rather than "Branch 23 contracts".

- "Branch 23 contracts" are unit-linked contracts and are invested mainly in investment funds and equity markets. Insurance companies do not offer a guaranteed return on contributions made into the plan. Their total returns depend on their portfolio composition. However, affiliates to "Branch 23 contracts" benefits from the legal minimum guaranteed return which is 1.75% since January 1st, 2016. In case of a shortfall on the individual account when paying a benefit or a transfer of reserves, the employer has to pay the difference. This kind of occupational plans are riskier for employers who bear the risk and are generally costlier.

In the second pillar, company pension plans and some PLCI are managed through Branch 23 contracts. All Branch 23 contracts accumulated €5.2 billion in reserves in 2020, representing 6.0% of the total reserves managed within "Assurance Groupe" contracts (see Table BE2).

Table BE2. Total reserves managed in pillar II in (€ billion)

	IORP (1)	"Assurance Groupe": Branch 21 contracts (2)	"Assurance Groupe": Branch 23 contracts (3)	Total "Assurance Groupe"(2) +(3)	Total (1)+(2)+(3)
2004	11.7	29.9	Na	na	**41.6**
2005	13.4	30.6	1.6	32.2	**45.6**
2006	14.3	33.5	1.7	35.2	**49.5**
2007	14.9	37.3	1.7	39.0	**53.9**
2008	11.1	38.2	1.4	39.6	**50.7**
2009	11.2	41.2	1.8	43.0	**54.2**
2010	13.9	44.7	1.8	46.5	**60.4**
2011	14.0	48.6	1.6	50.2	**64.2**
2012	16.4	52.3	1.7	54.0	**70.4**
2013	18.0	56.7	1.9	58.6	**76.6**
2014	20.7	60.1	2.1	62.2	**82.9**
2015	21.9	64.2	2.1	66.3	**88.2**
2016	26.8	67.4	2.4	69.8	**96.6**
2017	32.0	70.3	3.2	73.5	**105.5**
2018	31.4	72.6	3.7	76.3	**107.7**
2019	36.9	76.6	4.7	81.3	**118.2**
2020	39.7	80.6	5.2	85.8	**125.5**

Sources: Assuralia, BNB, BETTER FINANCE research, FSMA

Description of occupational pension plans

The following section provides information and figures for the different occupational pension plans within Pillar II in Belgium: sector pension plans, private supplementary pensions for self-employed individuals (PLCI) and company pension plans.

Sector pension plans[46]

Sector pension plans are supplementary pension commitments set up on the basis of collective bargaining agreements and concluded by a joint committee or joint sub-committee. In the joint committee/sub-committee, a sectorial organiser responsible for the pension commitment is appointed. On January 1st, 2021, 55 sectors offered occupational pension plans to the employees. There are 78 sector pension plans available for subscription. 2.203.060 individuals are covered by a sector pension plan.

Reserves of sector pension plans are mainly managed by IORPs. They increased in 2020 and amounted to €5.8 billion. This amount represents 14.6% of total reserves managed by IORPs within the second pillar in 2020. Reserves of sector pension plans managed by insurance companies through Branch 21 contracts are less important. In 2019, they represented €2.1 billion of reserves, represented 2.7% of the total reserves managed through "Branch 21 contracts" within the second pillar in 2019.

Table BE3. Total reserves in sector pension plans (€ billion)[47]

	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	3.1	1.7	**4.8**
2015	3.4	1.9	**5.3**
2016	4.0	1.8	**5.8**
2017	4.4	2.1	**6.5**
2018	4.1	2.6	**6.7**
2019	5.3	2.3	**7.6**
2020	**5.8**	**na**	**na**

Source: FSMA, BETTER FINANCE calculations

[46] All data provided comes from plans for which information is available.
[47] Data for 2006 and 2008 was not available.

Private Supplementary Pensions for self-employed individuals (PLCI)

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

Since 2004, self-employed individuals have the choice to contribute to supplementary pension plans. Moreover, they can henceforth choose the pension provider, either an IORP or an insurance company. They can switch from one provider to another during the accumulation period. On January 1st, 2021, self-employed individuals had the choice between PLCI conventions managed by 3 IORPs and 19 insurance companies.

On January 1st, 2021, 355,660 self-employed individuals were covered by supplementary pension plans and 244,858 individuals were covered both by their company or by their sector of activity and by a PLCI convention. 56% of self-employed individuals were covered by a PLCI convention.

Self-employed individuals can also supplement their PLCI with several solidarity benefits, called social conventions (INAMI convention). 72,653 self-employed individuals were affiliated to PLCI with a social convention on January 1st, 2020. These conventions offer benefits such as the funding of the PLCI in the case of inactivity and/or the payment of an annuity in the case of income loss.

Self-employed individuals can save up to 8.17% of their income, without exceeding a maximum annually indexed amount (€3,302.77 in 2021). These ceilings can be increased up to 9.40% and €3,800.01 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 2020, the contributions to PLCI convention reached €764 million[48].

[48] Source Assuralia

Table BE4. Total reserves managed in PLCI conventions (€ billion)			
	IORP	"Assurance Groupe" (Branch 21 & Branch 23)	Total
2006	na	Na	**2.9**
2007	na	Na	**3.3**
2008	na	Na	**3.5**
2009	1.6	2.4	**4.0**
2010	1.7	2.8	**4.5**
2011	1.4	3.7	**5.1**
2012	1.6	4.1	**5.7**
2013	1.6	4.6	**6.2**
2014	1.7	5.1	**6.8**
2015	2.0	5.7	**7.7**
2016	2.1	6.3	**8.4**
2017	2.1	6.8	**7.5**
2018	2.0	6.0	**8.0**
2019	2.2	7.9	**10.1**
2020	**2.2**	**na**	**na**
Sources: FSMA, BETTER FINANCE calculations			

Private Supplementary Pensions for Company Director (PLCDE)

The Private Supplementary Pension for Company Director is a tripartite relation between the company (the organizer), who can implement a pension commitment for the benefit of its director(s) and the commitment is managed by a pension organisation (either insurance companies or IORP).

FSMA publishes every two years since 2019, a bi-annual report on Private Supplementary Pensions for Company Director (PLCDE). The last report published in May, provides the following information on January 1st ,2020:

- The total number of organisers who implemented an individual or collective pension commitment for the benefit of its director(s) was 208,641. This represented an increase of 8% compared to January 1, 2018.
- The total number of commitments dedicated to Director increased and reached 319,052. Most of commitments were DC (94%) and were dedicated for only one affiliate (97%).
- The management of the pension commitments were managed quasi-exclusively by insurances companies (99% of reserves).
- The total reserves amounted to 19.6 billion euros and the contributions amounted to 1.66 billion euros (+3% since 2017).

232,593 directors were affiliated to a PLCDE. This is an increase of 6.4% from January 1, 2018. 1,835,064 employees (85%) were affiliated to "Assurance Group" contracts, while 326,806 employees (15%) were affiliated to IORP.

Table BE5. Total reserves managed in PLCDE (€ billion)

	IORP	"Assurance Groupe": Branch 21 contracts	"Assurance Groupe": Branch 23 contracts	"Assurance Groupe": Brach 21 + Branch 23 contracts	Total "Assurance Groupe"	Total
2015	**0.11**	11.85	0.06	3.02	**14.92**	**15.04**
2016	**0.14**	12.65	0.08	3.39	**16.11**	**16.25**
2017	**0.15**	13.29	0.13	3.90	**17.32**	**17.47**
2018	**0.18**	13.79	0.18	4.30	**18.27**	**18.45**
2019	**0.20**	14.38	0.19	4.80	**19.37**	**19.57**

Source: FSMA

Convention for self-employed as individuals (PLCIPP or CPTI)

Since July 1st, 2018, self-employed individuals without a company, can subscribe a pension agreement for self-employed individuals (CPTI), whether or not combined with a PLCI. FSMA provides information on this new type of pension agreement on January 1st, 2020:

- There were 5,135 pension agreements which covered 5,027 self-employed individuals.
- The total reserves amounted to 70.4 million euros. 57.3% of reserves are managed by Branch 21 contracts, 33.6% by combined Branch 21 / Branch 23 contracts, 4.6% by Branch 23 contracts and 4.5% by IORP.
- The total amount of contributions amounted to 38.7 million euros in 2019

Company pension plans

Company pension plans are prevalent within the second pillar. For the first time, FSMA published a bi-annual report on company pension funds in May 2021. This report provides information on January 1st, 2020:

- The total number of employers who implemented a collective pension commitment for the benefit of their workers was 57,800. This is an increase of 6.5% compared to January 1, 2018, when 54,287 employers set up a pension scheme.
- The number of company pension plans were 116,595. It increased from 109,587 on January 1, 2018, to 113,099 on January 1, 2019. It represented an increase of 6.4%.
- More than half of company pension plans have commitment for 1 to 5 employees: 36% have 1 member, while 26% of them have 2 to 5 members. They are 11% to have 6 to

10 affiliates and 18% to have 11 to 50 affiliates. A minority of the schemes (9%) have more than 50 members.

- The total reserves amounted to 52.8 billion euros. 40.3 billion euros were managed by 20 insurance companies through "Assurance Groupe" Branch 21 or 23 contracts and 12.5 billion euros were managed by 144 IORP.
- 1,994,196 employees were affiliated to a company pension plan. This is an increase of 11% from January 1, 2018. 1,835,064 employees (85%) were affiliated to "Assurance Groupe" contracts, while 326,806 employees (15%) were affiliated to IORP.

Table BE6. Total reserves managed in company pension schemes (€ billion)

	IORP	"Assurance Groupe": Branch 21 contracts	"Assurance Groupe": Branch 23 contracts	"Assurance Groupe": Brach 21 + Branch 23 contracts	Total "Assurance Groupe"	Total
2015	**8.6**	31.4	0.13	0.69	**32.3**	**40.8**
2016	**9.9**	33.2	0.20	0.75	**34.2**	**44.1**
2017	**10.9**	35.0	0.21	0.81	**36.0**	**46.8**
2018	**11.4**	36.9	0.24	0.86	**38.0**	**49.5**
2019	**12.5**	39.0	0.32	0.96	**40.3**	**52.8**

Source: FSMA

Supplementary pension for employees (PLCS)

Until March 2019, an employee could constitute an additional pension only if there is a pension plan within the company or the sector of activity which employs him / her. The legislator introduced a new form of pension constitution for employees on March 27, 2019. If the employee does not constitute a supplementary pension with his / her employer or within his /her sector of activity, or if it is low, the employee can take the initiative to constitute an additional pension (PLCS). For the first time, FSMA published a bi-annual report on company pension funds in May 2021. This report provides information on January 1st, 2020:

- There were 319 pension agreements which covered 310 employees. This means that each employee constituting pension rights under the PLCS has signed only one agreement.
- The total reserves amounted to 149.797.
- These pension agreements are managed by two insurance companies. 94% of reserves are managed by combined Branch 21 / Branch 23 contracts and 6% by Branch 21 contracts.

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 statuses:

a. A pension savings fund;
b. A pension savings insurance (through individual Branch 21 contracts).

2. Long-term savings products, which consist mainly of a combination of Branch 21 and Branch 23 contracts.

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

In 2020, 1,739,507-million Belgians saved through pension savings funds[49]. This number increased by 3.9% over a year. When adding up pension savings insurance contracts and long-term savings products, 2 out of 3 Belgians in the active population is covered by pension plans within the third pillar.

Pension savings funds

The Belgian pension savings funds market remains relatively concentrated since the launch of the first funds in 1987. The market has grown significantly in the past few years. 21 products (18 UCITS and 3 AIFs) were available for subscription at end-2021. The net assets under management reached €25.6 billion (+14.8% over a year). The net sales amounted to €339 million in 2021.

Table BE.7 Net assets under management in pension savings funds (€ billion)	
2003	7.4
2004	8.7
2005	10.3
2006	11.5
2007	11.8
2008	9.0
2009	11.1
2010	12.0
2011	11.2
2012	12.6
2013	14.4
2014	15.6
2015	16.9
2016	18.0
2017	19.6
2018	18.2
2019	21.3
2020	22.3
2021	**25.6**

Source: BeAMA

[49] Chiffres secteur OPC 4ème trimestre 2020, BEAMA, June 9th, 2021. There is no information for 2021.

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 2021 are unfortunately missing and will be published only by the end of 2022.

Assuralia also reports data on contributions and reserves managed through pension savings insurance and long-term savings products within the third pillar. In 2020, reserves managed within the framework of the third pillar represented 23.1% of total individual life-insurance reserves. For long-term savings products, there is no available information on the breakdown between Branch 21 and Branch 23 contracts (see Table BE7).

Table BE8 Contributions and reserves in individual life-insurance products within the third pillar in 2019 (€ billion)

	Contributions	Reserves	Pillar III reserves in % of total individual life insurance reserves
Pension savings insurance (Branch 21 contracts)	1.17	16.602	12.13%
Long-term savings products (Branch 21 and Branch 23 contracts combined)	1.09	14.928	10.91%
Total	**2.26**	**31.95**	**23.04%**

Source: Assuralia

Charges

Pillar II: Occupational pension plans

Charges in IORPs

There is no general data or available information on IORP charges. The only available information was for sector pension funds managed by IORPs[50]: operating expenses ranged from 0.002% to 1.6% of reserves, with an average of 0.14% in 2019 (0.15% in 2018, 0.13% in 2017 and 0.15% in 2015).

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 BE9. Charges in % of reserves in "Assurance Groupe" Branch 21 contracts

	Administrative & management costs (% of reserves)	Commissions (% of premiums)
2002	1.2	1.2
2003	1.0	1.3
2004	0.8	1.2
2005	0.9	1.4
2006	0.9	1.2
2007	0.8	1.4
2008	0.8	1.5
2009	0.8	1.3
2010	0.7	1.5
2011	0.7	1.5
2012	0.7	1.5
2013	0.7	1.5
2014	0.7	1.6
2015	0.6	1.6
2016	0.6	1.6
2017	0.6	1.8
2018	0.6	1.4
2019	0.6	1.5
2020	0.6	1.5

Source: Assuralia, own calculations

[50] Source: FSMA, Report on sector pensions plans, company pension funds and PLCLS, May 2021

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 13.8% of premiums in 2019. Half of the plans managed by insurance companies levied charges lower than 2% of premiums in 2019 (as in 2017 and 2015). The level of fees was below 1% for 13% of plans. Nevertheless, 18% of plans applied charges above 5% of premiums (as in 2017)[51].

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

Pillar III: Personal pension savings products

Pension savings funds

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

Using the prospectus of the 21 available pension savings funds for subscription in the Belgian market, the following average yearly charges were calculated in 2021:

- Entry fees: 2.29% of initial investment;
- Management fees: 0.95% of total assets under management;
- Total Expenses Ratio represented on average 1.29% of total assets under management;
- No exit fees.

The following table summarises the Total Expenses Ratio (TER) of 21 available funds for subscription in the Belgium market from 2017 to 2021. The average TER remains relatively stable in 2021 when compared to 2019 and 2018. Nevertheless, four pension funds increased their TER.

[51] Source: FSMA, Report on sector pensions plans, company pension funds and PLCLS, May 2021

Table BE10. Historical Total Expense Ratio from 2017 to 2021 (% of assets under management)					
	2017	2018	2019	2020	2021
VDK Pension Fund (Accent Pension Fund)	1.29	1.29	1.28	1.28	1.28
Argenta Pension Fund (ARPE)	1.34	1.32	1.32	1.33	1.33
Argenta Defensive Pension Fund	1.33	1.33	1.32	1.33	1.33
Belfius Pension Fund Balanced Plus	1.32	1.39	1.39	1.39	1.43
Belfius Pension Fund High Equities Cap	1.16	1.31	1.36	1.35	1.42
Belfius Pension Fund Low Equities Cap	1.61	1.17	1.19	1.19	1.20
BNP Paribas B Pension Balanced	1.24	1.24	1.24	1.24	1.24
BNP Paribas B Pension Growth	1.25	1.24	1.24	1.24	1.24
BNP Paribas B Pension Stability	1.24	1.24	1.24	1.24	1.24
Hermes Pension funds	1.06	1.06	1.04	1.24	1.24
Interbeurs Hermes Pensioenfonds	1.03	1.03	1.70	1.64	1.64
Metropolitan-Rentastro Balanced	1.24	1.23	1.24	1.24	1.24
Metropolitan-Rentastro Stability	1.25	1.25	1.25	1.25	1.25
Metropolitan-Rentastro Growth	1.25	1.25	1.25	1.25	1.25
Pricos	1.24	1.16	1.20	1.20	1.20
Pricos Defensive	1.24	1.15	1.19	1.20	1.20
Pricos SRI	-	1.37	1.31	1.33	1.36
Star Fund	1.18	1.16	1.17	1.17	1.16
Crelan pension funds Stability	1.29	1.27	1.29	1.28	1.28
Crelan pension funds Growth	1.29	1.27	1.29	1.28	1.28
Crelan pension funds Balanced	1.29	1.27	1.29	1.28	1.28
Total Expenses Ratio, Average (simple)	**1.26**	**1.24**	**1.28**	**1.28**	**1.29**

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

"Assuralia" provides us with historical data on administration and management costs as well as entry fees and other commissions paid for individual life insurance contracts. Data, for Branch 23 individual life insurance contracts, most likely do not include fees charged on the underlying units (investment funds).[52]

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

Table BE11 Administration and management costs and commissions for individual insurance companies (%)				
	Branch 21		Branch 23	
	Administrative and management costs (% of reserves)	Commissions (% of premiums)	Administrative and management costs (% of reserves)	Commissions (% of premiums)
2002	1.2	4.8	na	2.5
2003	1.8	3.7	na	3.0
2004	1.4	3.6	na	2.7
2005	0.7	3.3	0.3	2.0
2006	0.7	4.7	0.3	3.4
2007	0.6	4.6	0.3	4.2
2008	0.7	5.4	0.4	5.4
2009	0.6	5.8	0.3	5.6
2010	0.5	5.7	0.3	4.8
2011	0.5	6.0	0.3	4.6
2012	0.5	6.6	0.3	2.9
2013	0.6	8.8	0.3	4.8
2014	0.6	7.8	0.4	5.2
2015	0.5	9.1	0.4	4.9
2016	0.5	8.0	0.4	5.7
2017	0.6	8.8	0.4	5.4
2018	0.6	8.4	0.4	5.4
2019	0.6	8.2	0.3	5.5
2020	0.6	9.3	0.3	5.7

Source: Assuralia, BETTER FINANCE calculations

Taxation

Pillar II: Occupational pension plans

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

Employees pay two taxes on their benefits:

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

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

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

Lump sum payment

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

Table BE12. Taxation of benefits from occupational pension plans

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

Source: "Assuralia", Wikifin.be

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

Periodic annuities[53]

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

Converting the accumulated capital into a life annuity

An employee can convert the lump sum payment into a life annuity. In this case, the INAMI contribution and the solidarity contribution have to be paid according to the rules applied to

[53] 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.

the lump sum payment. Then the retiree has to pay a withholding tax of 15% on the annuity each year.

Pillar III: Personal pension savings products

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

Pension savings products (fund or life insurance contracts)

➢ Tax relief on contributions during the accumulation phase

Contributions invested in pension savings products (fund or insurance) are deductible from the income tax. Individuals can make contributions into pension savings products up to a rather low annual ceiling (€990 in 2021). The tax ceiling on pension savings products was frozen from 2020 and the next indexation will take place in 2024

Since 2012 and until 2018, a tax relief rate equal to 30% of the contributions was applied, regardless of the taxpayer's income.

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

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

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

➢ Final taxation on the accumulated pension rights

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

Table BE13. 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.
	8% of the accumulated capital is levied (excluding participation to annual earnings);
	The taxation is based on a theoretical return of 4.75%;
At the age of 60	The saver can continue investing and enjoying tax relief until the age of 64;
	The accumulated capital is no longer taxed after the 60th birthday of the beneficiary.
Subscription to pension savings products at the age of 55 or after	
Benefits paid before the age of 60	The accumulated capital is taxed under the personal income tax system.
Benefits paid between the age of 60 and 64	The accumulated capital is taxed at the rate of 33%.
At the age of 65 or after	8% of the accumulated capital is levied (excluding participation to annual earnings);
(i.e., when the contract reaches its 10th birthday)	The taxation is based on a theoretical return of 4.75%;
	To benefit from this lower taxation, the beneficiary has to stay at least 10 years in the fund and make at least five contributions.

Sources: Assuralia, Wikifin.be

Long-term savings products (life insurance contracts)

The maximum amount of tax relief based on contributions invested in long-term savings products depends on the level of the saver's yearly earnings, without exceeding the ceiling of €2,350 in 2021. The tax ceiling on long term savings products was frozen at the same level to that of 2018 and it will be reviewed in 2024. However, the tax relief is determined jointly for long-term savings products and mortgage deductions. If a saver already receives a tax relief for a mortgage, it may be impossible to obtain a further tax relief for life insurance products under the third pillar.

The same rules of taxation to that of pension savings products (fund or insurance) apply to long-term savings products. The taxation depends on the beneficiary's age at the time of subscription (before or after 55) (see Table BE13).

However, the taxation differs in two points:

- The pension reserves are taxed by considering the real return of the long-term savings products over the period of holdings instead of a theoretical return of 4.75%;

- The lowering of the tax rate to 8% does not apply to the capital accumulated through long-term savings products, which remain taxed at 10%.

Pension Returns

Pillar II: Occupational pension plans

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

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

In addition, the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030) affects the minimum guaranteed return offered to employees. When the affiliate reaches the age of 60, his/her occupational pension plan is extended until he/she reaches the age of 65. During the extension period, the minimum guaranteed return continues to be applied to reserves. Its level corresponds to the new effective minimum guaranteed return that will be recalculated and published each year by FSMA. In 2021, the legal minimum guaranteed return remained steady at 1.75%.

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

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

Occupational pension plans managed by IORPs

In 2020, among the 184 pension plans managed by an IORP, 157 had a promise of returns (DB plans) or were hybrid plans (Cash Balance, DC + rate), 27 were DC plans. While newly opened plans are always DC plans, a large part of assets are still managed in plans offering promises of returns.

PensioPlus, the Belgium's occupational pension plans association reported an average return of 9.08% in 2021. 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 2021.[54]

Table BE14 Nominal and Real Returns of occupational pension plans managed by IORPs in Belgium

	Gross return		Nominal return after charges, before inflation and taxes		Real return after charges and inflation and before taxes	
2000	0.92		-0.07		-2.96	
2001	-4.18		-5.12		-6.91	
2002	-11.05		-11.92		-13.08	
2003	10.37		9.29		7.53	
2004	9.85		8.93		6.78	
2005	16.04		14.96		11.87	
2006	10.26		9.27		7.05	
2007	2.21		1.39		-1.67	
2008	-17.06		-17.72		-19.88	
2009	16.58		15.69		15.31	
2010	10.28	5.2	9.50	4.4	5.92	2.3
2011	0.01		-0.70		-3.77	
2012	12.90		12.10		9.81	
2013	7.46		6.70		5.47	
2014	11.85		11.06		11.50	
2015	5.23		4.48		2.99	
2016	5.82		5.07		2.80	
2017	6.03		5.28		3.16	
2018	-2.41		-3.07		-5.18	
2019	16.06		15.24		14.19	
2020	5.34		4.59		4.22	
2021	9.86		9.08		3.07	

[54] The participants to the annual Pensio's Plus survey represented 85% of the market share in terms of asset under management in 2021.

Table BE15 Annualized performance of occupational pension plans managed by IORPs (%)			
Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	9.86%	9.08%	3.07%
3-years	10.33%	9.55%	7.05%
5-years	6.81%	6.05%	3.71%
7-year	6.44%	5.69%	3.48%
10-years	7.70%	6.94%	5.07%
2000-2022	5.21%	4.37%	2.27%

Over a 22-year period (2000-2021), occupational pension plans managed by IORPs experienced negative nominal returns before charges four times: in 2001, 2002, 2008 and in 2018. Over the period 2000-2021, the annualized performance after charges, tax and inflation is positive (2.27%).

PensioPlus reported the average asset allocation of IORP at end-2021, as follows: 45% in equities, 46% in Fixed Income securities (with the half invested in corporate bonds), 3% in Real Estate, 3% in cash and 4% in other asset classes. The asset allocation remained quite steady in 2020. The proportion of fixed income assets still represented the largest part of assets. The proportion of real estate decreased significantly.

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

Since 2015, Assuralia no longer reports net returns after charges in percentage of the total reserves of "Assurance Groupe" Branch 21 contracts in its annual report this report[55]. Information for years after 2014 cannot be updated.

In May 2021, FSMA reported some information on returns in its bi-annual report on sector pension, company pension and PLCLS. It reported an average net return of 2.40% for sector pension funds managed through "Assurance Groupe" contracts in 2019 (against 1.66% in 108, 2.63% in 2017, 2.91% in 2016 and 3.01% in 2015)[56]. The downward trend that has been observed for several years is confirmed. One can observe the same assessment for PLCI conventions.

A self-employed individual who subscribes to a PLCI convention had on average a return of 2.5% on his /her contracts in 2019 (against 2.64% in 2017 and 2.75% in 2015).

The minimum guaranteed return of PLCI varied between 0% and 4.75%. Some conventions subscribed before July 1st, 1999, offer a guaranteed return of 4.75% on past and future

[55] In November 2021, Assuralia published its annual report including Statistics for the whole year 2020
[56] Source FSMA, Report on sector pension, company pension and PLCLS, May 2021.

premiums. The average (pondéré des reserves acquises) return decreased to 1.79% (against 2.15% in 2017) and the average participation to benefits was 0.43%, equal to that of 2017.

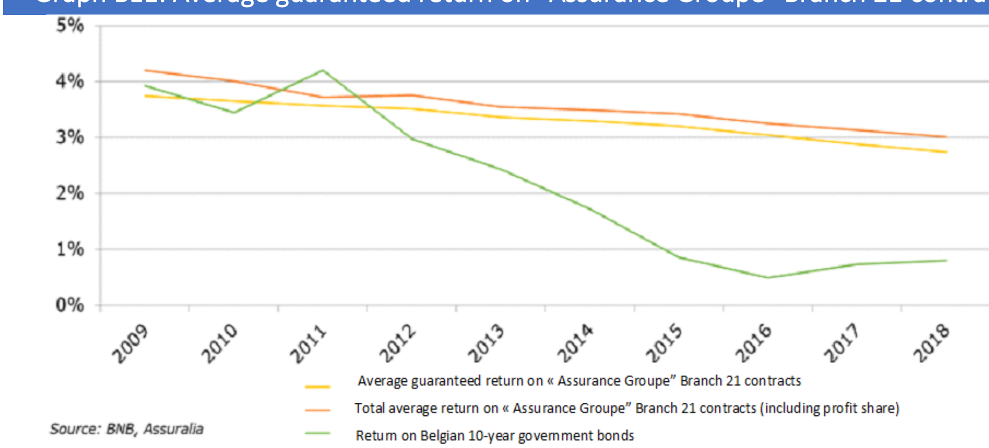
Assuralia provided information on "Assurance Groupe" contracts with data at the end-2018[57]. This information was not updated for years after 2018.

At the end-2018, "Assurance Groupe" contracts and individual contracts through Branch 21 contracts[58] were invested with the following assets allocation:

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

With the decline in the return on the Belgian 10-year government bonds since 2011, insurance companies were forced to decrease the guaranteed return offered to new contributions on "Assurance Groupe" Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on the past contributions until the retirement. Past reserves continue to have guaranteed returns range from 3.25% to 4.75%. In 2018, the average guaranteed return continued to decrease but remained at 2.74%. When including the profit share, the average guaranteed return reached 3% of the total reserves. For older pension plans the return was higher than this rate, for newer plans it was lower.

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



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

[58] The insurance law of March 13, 2016 (Solvency II law) requires that investments relating to "Assurance group" contracts and individual life insurance have to be managed together. In this way, the insurer benefits from economies of scale and more possibilities for diversification, which should benefit the return.

Table BE16. 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, BETTER FINANCE's calculations

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

Table BE17. 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

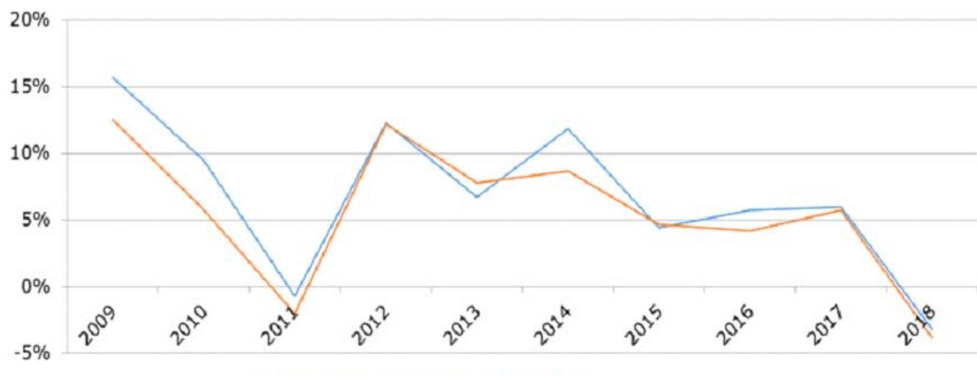
Source: Assuralia, BETTERFINANCE'S calculations

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

Assuralia published information on the returns of "Assurance Groupe" Branch 23 from 2009 to 2018 (see the following graph). Returns on "Assurance Groupe" Branch 23 contracts are variable and depend on the performance of underlying assets. These contracts experienced negative returns in 2011 and 2018. Their net average returns are very close to those of occupational funds managed by IORP (around - 4% in 2018). Assuralia did not update this information for years after 2018. Since 2015, Assuralia no longer provides information on the returns of "Assurance Groupe" Branch 23 contracts.

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 claim for its pension rights, if the final payment is less than the amount including the minimum guaranteed return, the employer has to pay the difference.

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



Source: Assuralia, PensioPlus

Pillar III: Personal pension savings products

Pension savings funds

The Belgian Asset Management Association (BeAMA) provides quarterly data on pension savings funds. The most recent data regarding their returns was on an annual basis at end-2021.

Table BE18 Annualised performance of pension savings funds

Over 1 year	Over 10 years	Over 25 years
11.7%	6.9%	5.9%

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 2021.

From 2013 to 2021, TER expressed as a percentage of total assets under management were collected and were used in returns calculations. However, there is no historical data for TER before 2013. Over the whole period from 2000-2012, TER from 2013 were used and assumed to remain stable.

Table BE19. Nominal and Real Returns of pension saving funds in Belgium (%)

	Gross returns			Nominal return after charges, before inflation and taxes			Real return after charges and inflation and before taxes		
2000		-2.81			-4.00			-6.77	
2001		-3.32			-4.50			-6.30	
2002		-13.44			-14.50			-15.62	
2003		16.02			14.60			12.75	
2004		20.19			18.72			16.38	
2005		18.54			17.09			13.95	
2006		10.45			9.10			6.88	
2007		3.75			2.48			-0.61	
2008		-25.06			-25.98			-27.92	
2009		20.03			18.56			18.17	
2010		8.59	5.34		7.26	4.04		3.75	1.91
2011		-3.97			-5.14			-8.07	
2012		13.30			11.92			9.63	
2013		12.53			11.16			9.88	
2014		8.96			7.61			8.04	
2015		9.67			8.27			6.72	
2016		4.00			2.70			0.49	
2017		7.98			6.64			4.49	
2018		-6.73			-7.87			-9.86	
2019		16.51			15.05			13.99	
2020		3.27			1.96			1.61	
2021		13.16			11.72			4.81	

Table BE20 Annualized performance of pension saving funds (%)

Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	13.2%	11.7%	4.8%
3-years	10.8%	9.4%	6.7%
5-years	6.5%	5.2%	2.7%
7-year	6.6%	5.3%	3.0%
10-years	8.1%	6.7%	4.8%
2000-2021	5.3%	4.0%	1.9%

Pension savings funds within the third pillar experienced negative nominal returns from 2000 to 2002, as well as in 2008, 2011 and in 2018. Unlike occupational pension plans, these pension savings funds are not obliged to pay a guaranteed return to retirees. Over the 21-year period (2000-2021), they delivered relatively similar nominal returns to occupational pension plans managed by IORPs. Benefits are taxed at a flat rate of 8%[59], considering an 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, Belgian can subscribe to pension savings insurance or to long-term savings products. Pension savings insurance consists in investing in individual life-insurance Branch 21 contracts with a guaranteed capital. Long-term savings products combine Branch 21 contracts and unit-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, since 2015 Assuralia no longer provides on pension savings insurance and long-term savings products in its annual publication. Over the whole period from 2002-2014, the real annual average return after charges and taxation remained positive to 1.67% for Branch 21 contracts and to 1.30% for Branch 23 contracts.

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

Table BE21. Returns of individual Branch 23 contracts (%)

	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

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

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

Conclusions

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

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

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

Over a 22-year period (2000-2021), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) had a real annualised performance before taxation of 2.27% and 1.9% respectively. These funds offer returns linked to the performance of the underlying assets. Unlike insurance companies, asset management companies are less constrained in their asset allocation and can more easily benefit from potential increases in markets.

Assuralia reported some information on "Assurance Groupe" contracts on its website. In 2018, "Assurance Groupe" Branch 21 contracts offered on average nearly 2.74% of return (including profit share) and "Assurance Groupe" Branch 23 contracts offered a return close to -4%. Nevertheless, we do not have any information on return for and individual life-insurance contracts within the third pillar since 2014.

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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.[289]

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.

[289] 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.

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.

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 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.[290]

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.

Deferred 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

[290] See European Commission, 'Investment Funds' (28 August 2019) https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds_en.

Benefits schemes may be part of an individual employment contract or collective agreement. Pension contributions are usually paid by the employee and the employer".[291]

"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.

"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 unfavourable 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".[292]

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.[293] 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.

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[291] 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.

[292] Ibid.

[293] 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.

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.[294]

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 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.

[294] 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).

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, short-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).

Money-Weighted Returns (MWR) - also referred to as the internal rate of return, is a measurement of performance that takes into account cash flows (contributions) when calculating returns.

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.

Eurostat aggregate replacement rate for pensions refers to median individual pension income of population aged 65-74 relative to median individual earnings from work of population aged 50-59, excluding other social benefits.

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.[295] 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,

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

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 cannot be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract 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 benefit.

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

Summary Risk Reward Indicator - a measurement developed by the European Securities and Markets Authority (former CESR) to be included in the Key Investor Information Document (KIID) for UCITS (undertakings for collective investment in transferable securities) to reflect the risk profile of a certain fund.

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.

Time-Weighted Returns (TWR) - is the standard method of calculating returns (and performance) of an investment and simply represents the growth/decrease in value without incorporating the distorting effects of cash inflows and outflows (for pensions, that means contributions and

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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