Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

BETTER FINANCE

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

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The Real Return of Long-term and Pension Savings

2024 Edition — Belgium

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the “fairer deal” that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently “aggressive” to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

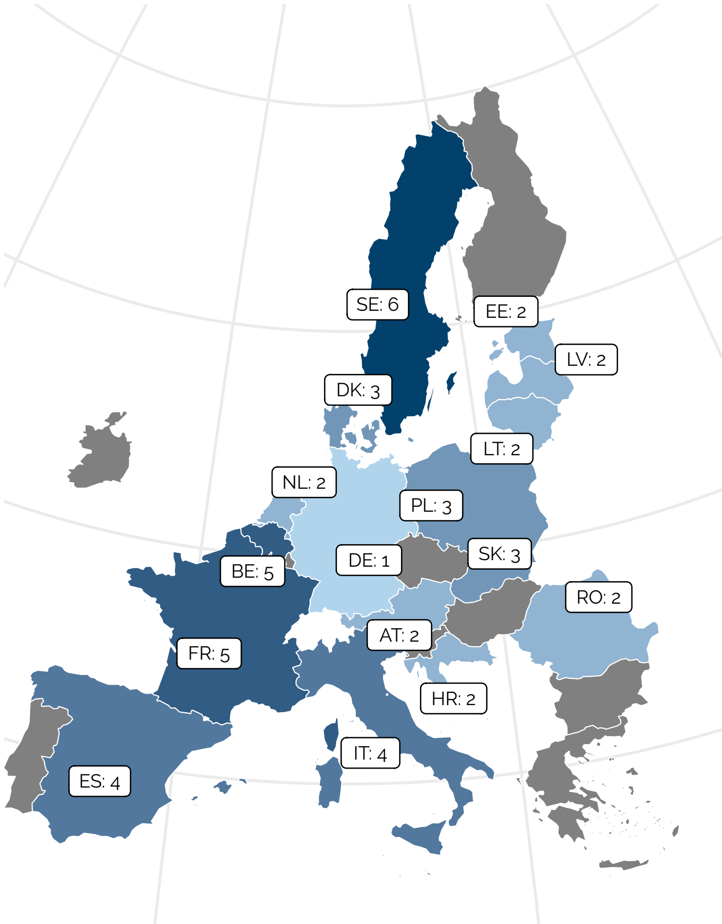
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – **Countries and number of product categories included in the report**

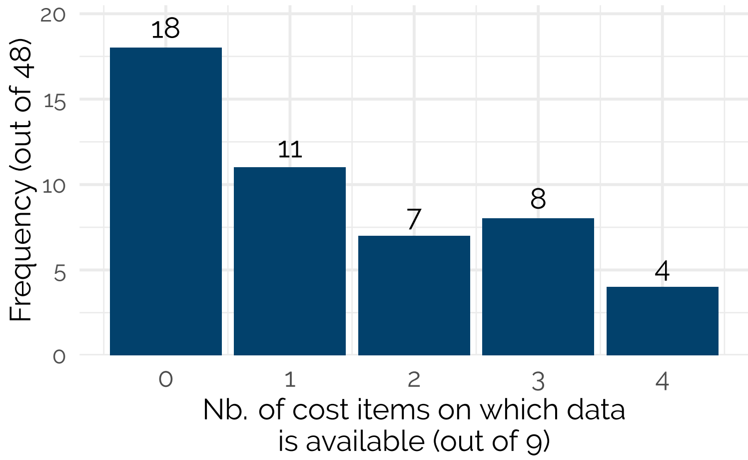


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

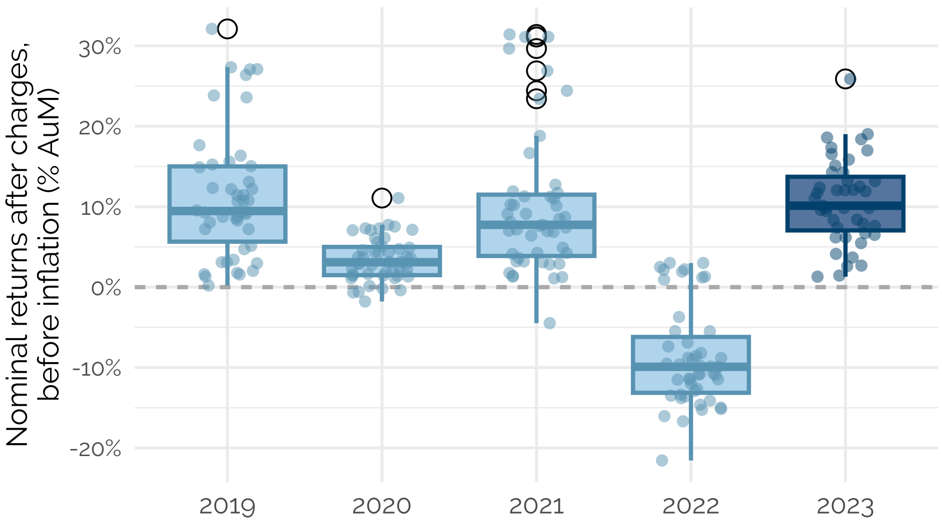
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – **Average 1-year return rates of analysed product categories (2019–2023)**



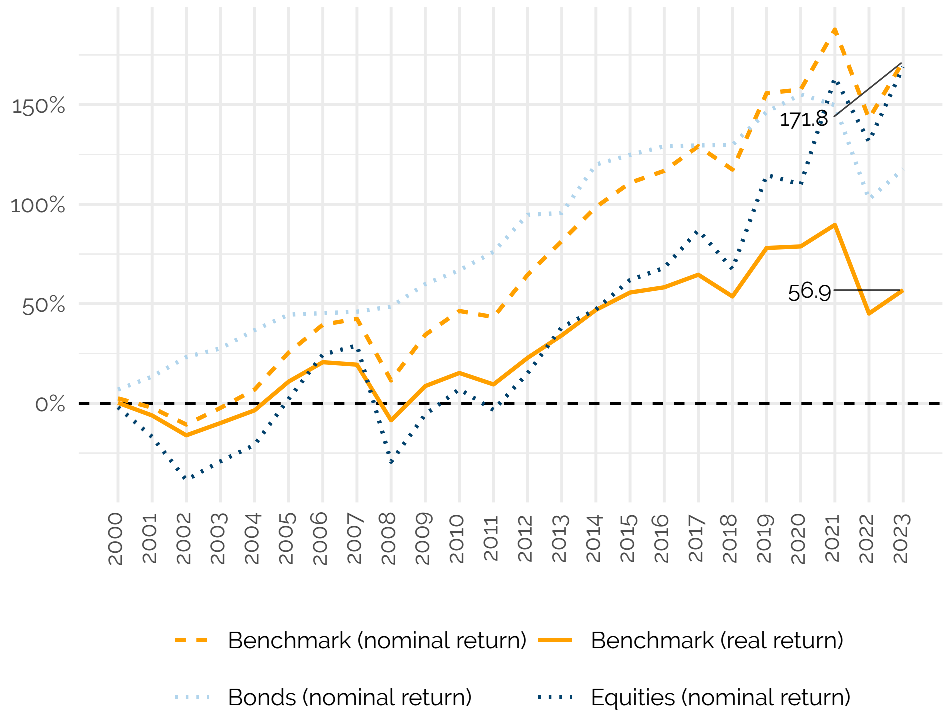
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

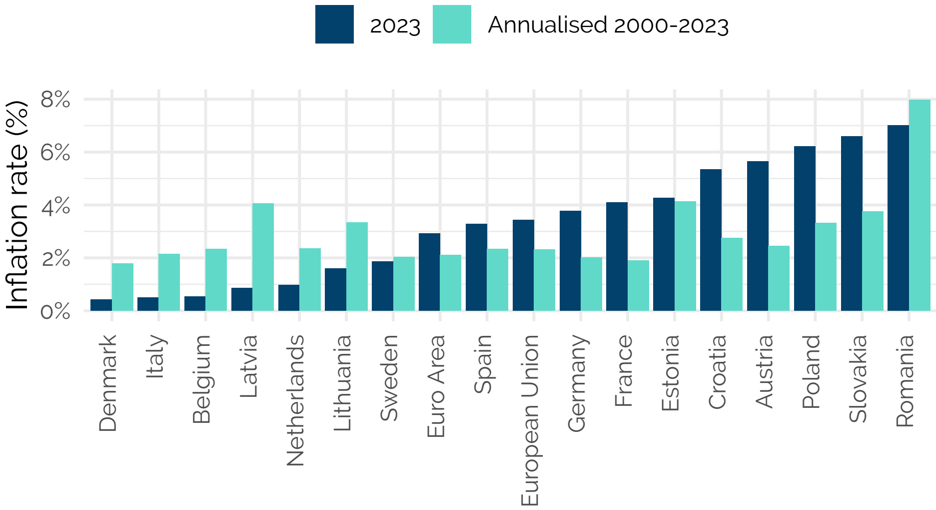
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the “1% fee cap”, that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

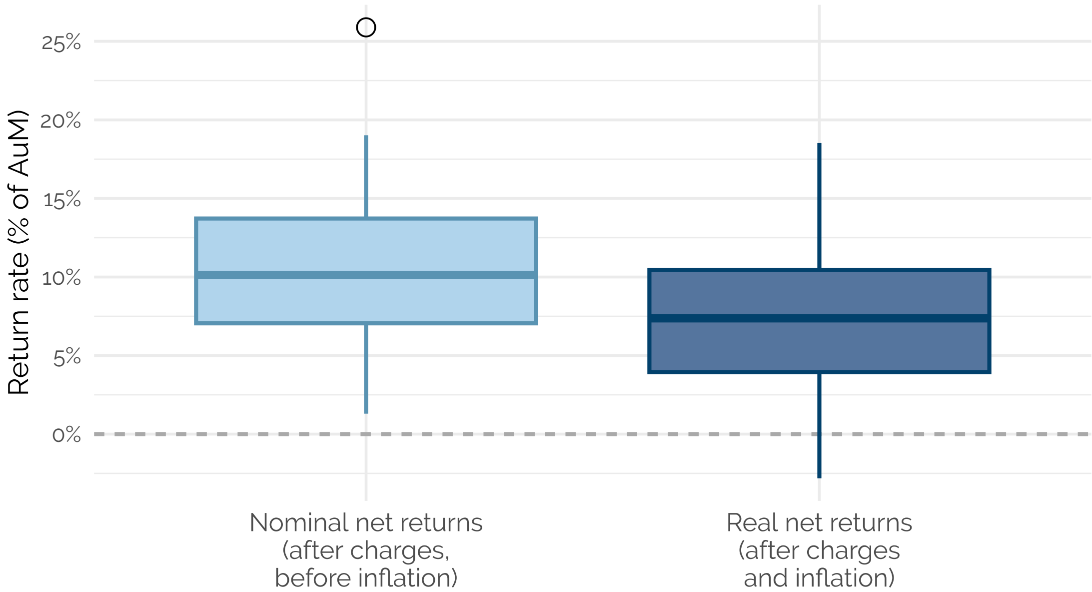
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – Inflation 2023 vs. 2000–2023 annual average



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)

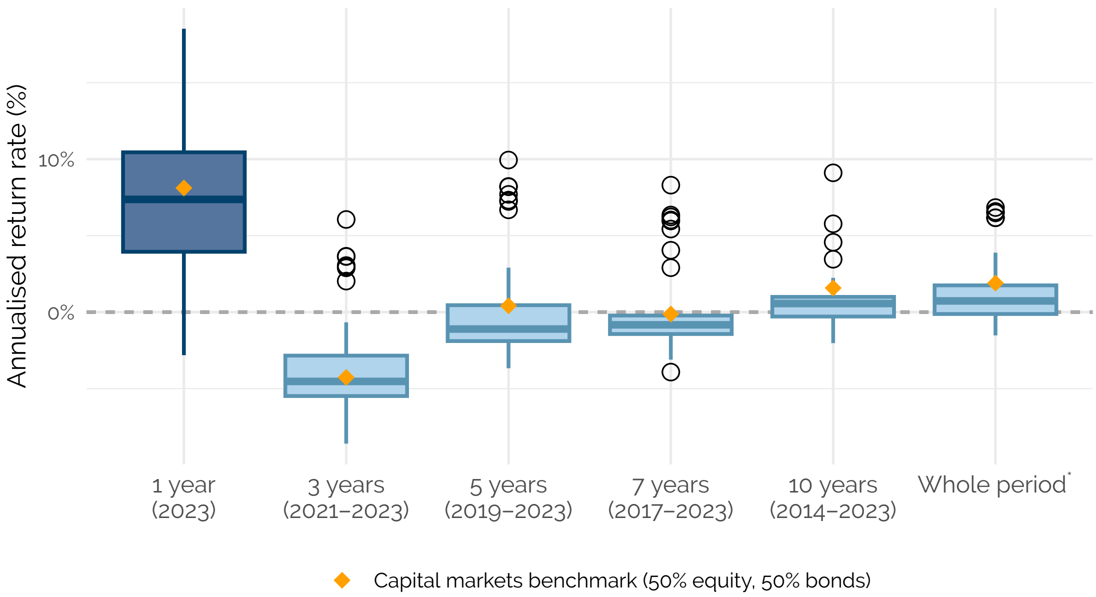


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Deviation	Best performance	Worst performance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

Calculations: BETTER FINANCE

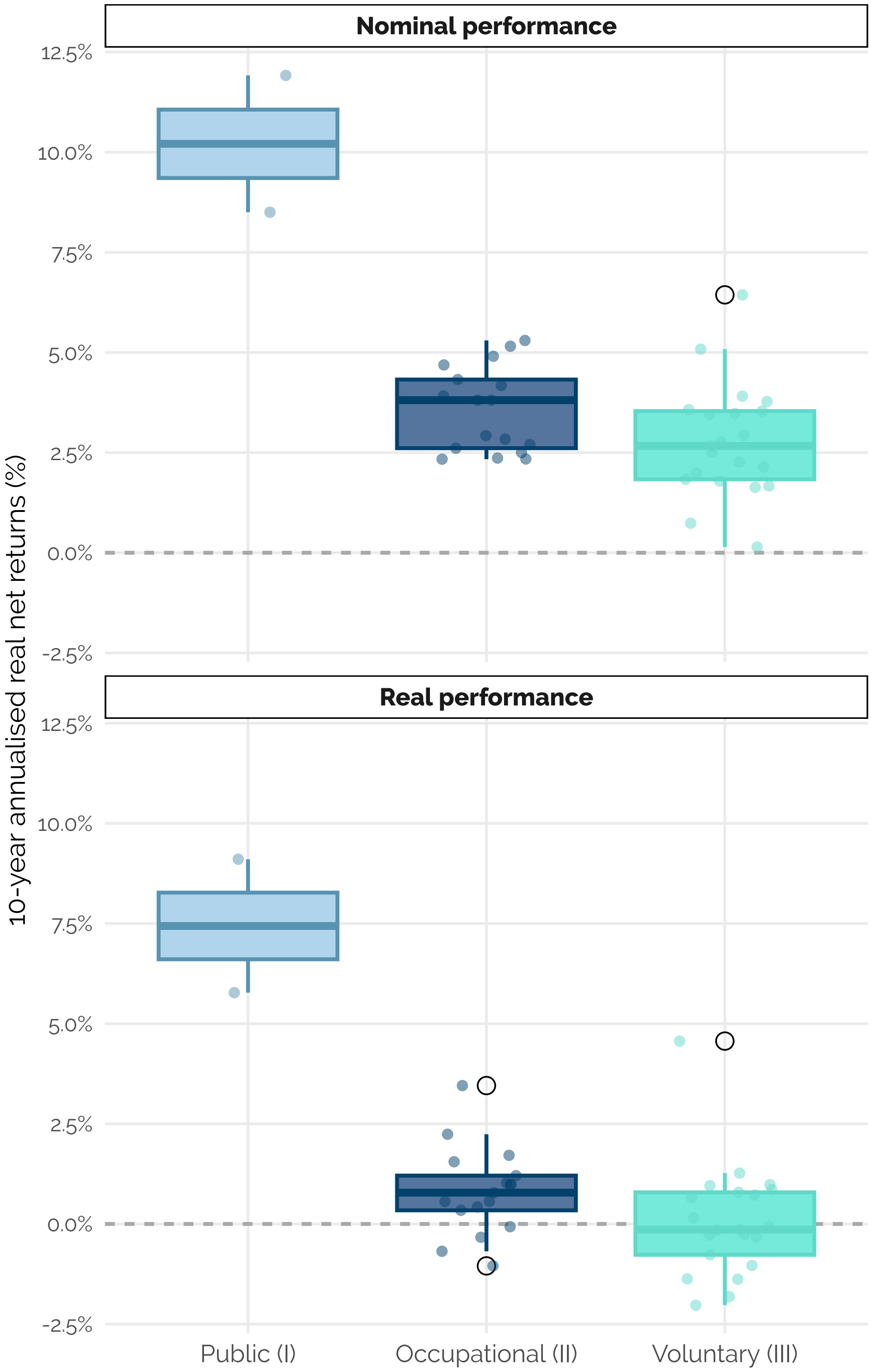
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – Average 10-year annualised performance per Pillar



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called “advisors” are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission’s proposal to partially ban so-called “inducements” as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of “free” investment advice and a selection bias in distributors’ recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme’s members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU’s MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.
- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 2

Belgium

Résumé

Le système de retraite belge 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 60.9% en 2022. Les piliers 2 et 3 constituent 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 (respectivement 83.6% et 68% de la population active couverte). Les véhicules de placements du pilier 2 sont gérés par des IRP ou des sociétés d'assurance. Les Belges ont accès à fonds d'investissement et à des produits d'assurance dans le cadre du pilier 3.

Sur une période de 24 ans (2000-2023), les fonds de pension gérés par les IRP (pilier 2) et les fonds d'épargne retraite (pilier 3) ont un rendement annualisé réel après charges de 1,3% et 1.0% respectivement. Depuis 2016, le rendement garanti offert sur les nouvelles cotisations versées sur les contrats d'assurance groupe Branche 21 du pilier 2 ont été revus à la baisse et sont devenus en moyenne inférieurs à 3%. Le taux légal de rendement minimum garanti, calculé par FSMA, est de 1,75% depuis 2016. Ce taux augmentera à 2,5% à partir du 1er janvier 2025. En raison, du manque d'informations, il est plus difficile de fournir des informations sur les rendements des contrats d'assurance vie groupe et assurance vie individuelle.

Summary

The Belgian pension system is divided into three pillars. The first pay-as-you-go (PAYG) pillar is still important among the three pillar and provides on average a replacement rate of 60.9% in 2022. 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 83.6% 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 asset management companies 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 24-year period (2000-2023), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) have an annualised real performance after charges of 1.3% and 1.0% respectively. Since 2016, the average guaranteed return on Assurance Groupe Branch 21 contracts decreased and became on average slightly under 3%. The legal minimum guaranteed rate of return, calculated by FSMA, has been 1.75% since 2016. This rate will increase to 2.5% from January 1, 2025. Due to a lack of information, it is more difficult to provide return information on Assurance Groupe contracts and on individual life-insurance contracts subscribed in the framework of pillar III.

Introduction: The Belgian pension system

There are four types of vehicles for old age provision within the second and third Belgium pillars: pension funds managed by IORPs, Assurance Groupe contracts within the second pillar and pension savings plans and long-term insurance products within the third pillar.

In the second pillar, pension savings plans managed by IORPs and those managed by asset management companies have similarities, notably in terms of returns. Their performance remains positive over the whole period from 2000 to 2023, with an annualised real return (after charges and before tax) of 1.33% and 1% respectively. These pension vehicles experienced 7 years of negative returns during the whole period (2000, 2001, 2002, 2008, 2011, 2018 and 2022).

There is little information regarding Assurance Groupe contracts and long-term insurance products within the third pillar. For the whole period (2002-2022) for which the data is available, Assurance Groupe Branch 21 offered an annualised net return of 4.21%. Individual life-insurance Branch 21 contracts offered an annualised net return of 3.68%. It is more difficult to obtain detailed information on return of Branch 23 contracts within the pillar II and III.

The annualised nominal, net, and real net rates of returns for the Belgium retirement provision vehicles summarised in Table BE.2 are based on different holding periods: 1 year, 3 years, 5 years, 7 years, 10 years and since inception (2000 for pension funds and 2002 for insurance products).

Table BE.1 – Long-term and pension savings vehicles analysed in Belgium

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
IORP	Occupational (II)	2000	2023
"Assurance Groupe": Branch 21	Occupational (II)	2002	2022
"Assurance Groupe": Branch 23	Occupational (II)	2002	2022
Pension savings plans	Voluntary (III)	2000	2023
Long term insurance products (Branches 21 and 23)	Voluntary (III)	2002	2022

Pension system in Belgium: An overview

Table BE.2 – Annualised real net returns of Belgian long-term and pension savings vehicles (before tax, % of AuM)

	IORP	"Assurance Groupe": Branch 21	"Assurance Groupe": Branch 23	Pension savings plans	Long term insurance products (Branches 21 and 23)
1 year (2023)	9.2%	—	—	9.3%	—
3 years (2021–2023)	-4.8%	-4.9%	-4.9%	-4.5%	-5.2%
5 years (2019–2023)	0.5%	-1.1%	-1.1%	0.2%	-1.5%
7 years (2017–2023)	0.1%	-0.2%	-0.2%	-0.7%	-0.6%
10 years (2014–2023)	1.7%	1.0%	1.0%	1.0%	0.7%
Whole period	1.3%	1.7%	1.7%	1.0%	1.2%

Data: PensioPlus, National Bank of Belgium, BeAma, Eurostat; *Calculations:* BETTER FINANCE. *Note:* Return data of insurance products for 2023 have not yet been published, calculations are made from the beginning of the period to 2022.

Pillar I — State pension

The Belgian Pillar I is organised as a PAYG pension system consisting of three regimes: a regime 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 August 10, 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 2022, the net replacement rate from the PAYG system for both men and women (with an average working wage) was 60.9% (Organisation for Economic Co-operation and Development, 2023).

Pillar II — Funded pensions

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 because 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 IORP or by an insurance company. Insurance companies predominantly manage them.

The Supplementary Pensions Act reform entered into force as of January 1, 2016. It amended the Act of April 28, 2003 by introducing the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030). Supplementary pension benefits will be paid at the same time as the legal pension's effective start. Previously, some occupational pension plans allowed early liquidation: lump sum payments or annuities from supplementary pension could be paid from the age of 60. Conversely, employees who decide to postpone their effective retirement when having 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 1, 2016, all these existing beneficial anticipation measures were abolished. Affiliates who reached the age of 55 years on or before December 31, 2016 can still benefit from these existing measures.

At January 1, 2023, approximatively 4 346 million Belgians (83.6% of the active population) were covered by occupational pension plans (Autorité des Services et Marchés Financiers [FSMA], 2022a):[1]

- 3 717 million employees were covered either by their company or by their sector of activity;
- 345 058 self-employed individuals were covered by supplementary pension plans;
- 283 266 individuals were covered both by their company or by their sector of activity and by a supplementary pension plan dedicated to self-employed

The number of Belgian citizens covers by occupational pension plans increased by 4% between 2022 and 2023.

[1] 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.

Pillar III — Voluntary pension

The third pillar regroups individual private and voluntary pension products, which allow individuals to have tax reliefs from their contributions. There are two types of available products for subscription: pension savings funds managed either by banks or asset management 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 third pillar products.[2] 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 35,1% being covered by pension savings funds (1.8 million Belgians).

Description of long-term and pension savings vehicles in Belgium

AuM in Belgium pension savings vehicles amounted to EUR 168.4 billion in 2022. Figure BE.1 represents the breakdown of assets under management of the different pension vehicles in Belgium from 2000 to 2023. In 2022, 68,2% of AuM were managed in the framework of the second pillar (EUR 114.8 billion). Assurance Groupe contracts remained predominant within the second pillar and represented 67.7% of outstanding amounts managed (EUR 77.8 billion). AuM in IORPs amounted to EUR 37 billion. In the third pillar, pension vehicles are also managed either by a pension fund or by an insurance company. The share of pension savings funds represented 41.2% of asset under management within the third pillar in 2022. Outstanding amounts of long-term pension savings, managed by insurance companies, amounted EUR 31.5 billion and represented 21% of individual life insurance outstanding amounts in 2022.

Second pillar: Occupational pension funds

The second pillar refers to occupational pension plans designed to raise the replacement rate. This is based on the capitalisation principle: pension amounts result from the capitalisation of contributions paid by the employer and/or employee or by self-employed individuals in a pension vehicle. There are four types of occupational pension plans , managed by two kinds of financial intermediaries (IORPs and insurance companies):

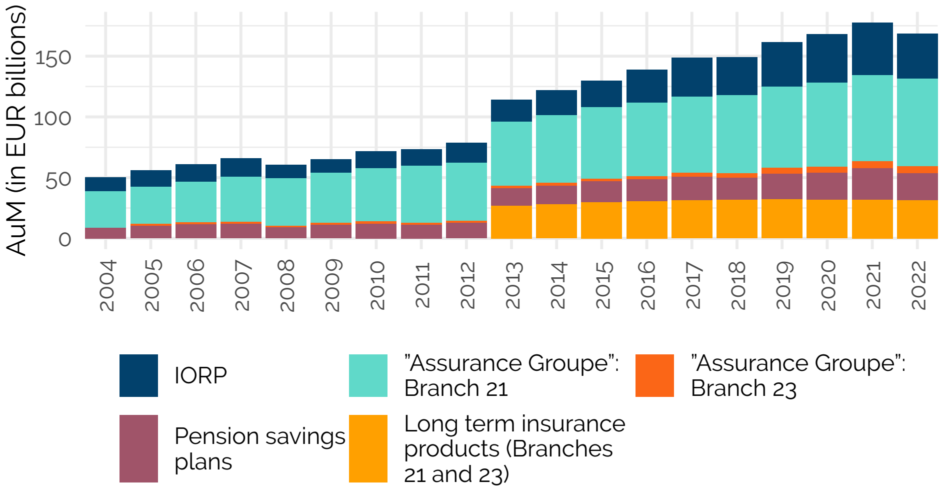
- Company pension plans;
- Sector pension plans CBAs;
- Supplementary pension plans for self-employed individuals, company directors and an additional pension agreement for self-employed as individuals (PLCI, PLCDE, PLCIPP);
- Supplementary pension plan for employees (PLCS).

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

Table BE.3 – Overview of the Belgian pension system

Pillar I	Pillar II	Pillar III
State Pension	Funded pension *The Supplementary Pension Law (the Vandenbroucke Law) implemented in 2003*	Voluntary pension
SFPD (Federal Pensions Service)	IORPs 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	defined benefit (DB) / defined contribution (DC) Individual retirement accounts	
Quick facts		
Number of old-age pensioners (as of January 1, 2023): 2 576 637	IORPs: 159 Insurance companies: 26	Pension savings funds: 21 Life insurance retirement savings product
Net average old-age pension (as of January 1, 2023: EUR 1 640	AuM: EUR 114.8 bln. (in 2022)	AuM: EUR 53.64 bln. (in 2022)
Gross Disposable Income per inhabitant in 2023: EUR 29 806	Participants: 4.436 million	Participants: 3.8 million
Men and women's average replacement ratio: 60.9% (2022)	Coverage ratio: 83.6% of active population is affiliated to a pension product, being active or dormant	Coverage ratio: 68%

Figure BE.1 – AuM of Belgian long-term and pension savings vehicles



Data: FSMA, National Bank of Belgium, BeAma, Assuralia; *Calculations:* BETTER FINANCI
Note: Data for long-term insurance products are not available before 2013.

The Financial Services and Markets Authority (FSMA) annually reports detailed information on institutions for occupational retirement provision (IORPs, the EU law term for non-insurance regulated occupational pension products provider)[3]. Every two years, the FSMA also reports detailed information for all the other existing pension products within the second pillar.

Management of occupational pension plans

The management of occupational pension plans can be entrusted to an IORP or to an insurance company (Branch 21 and Branch 23 contracts).

Institutions for occupational retirement provision (IORPs):

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 IORPs in 2022 (as of January 1, 2023):

- 154 occupational pension plans were managed by an IORP
- Number of affiliates to IORPs increased to 2 409 231 against 2 135 785 in 2021.
- Based on the amount of reserves managed out of the total in Pillar II, IORPs had a market share of 32%, the rest being managed by insurance companies

[3] 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.

through Branch 21 and Branch 23 contracts.

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:

First, Branch 21 contracts are occupational plans, offering a guaranteed return on contributions made by employers and employees. From 2016, FSMA calculates and publishes each year, the rate applicable to the calculation of the minimum return guaranteed. Since 2016, this rate was set at 1.75% and remained unchanged. From January 1, 2025, it will increase to 2.50% (for more information see Page 21). The insurance companies who provide these contracts bear the risk and pay the guaranteed return in addition to a profit-sharing. All sector pension plans and all supplementary pension plans for self-employed individuals managed by insurance companies take the form of Branch 21 contracts. Most of company pension plans are also managed through Branch 21 contracts rather than Branch 23 contracts.

Second, 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 benefit from the legal minimum guaranteed return, which is the same to that of Branch 21 contracts (1,75% from 2016 and 2.50% from 2025). In case of a shortfall on the individual account when paying a benefit or a transfer of reserves, the employer must pay the difference. This kind of occupational plans are riskier for employers who bear the risk and are generally costlier.

In the second pillar, some company pension plans and some supplementary pension plans for self-employed individuals (PLCIs) are managed through Branch 23 contracts. Reserves managed in Branch 23 contracts amounted EUR 5.5 billion in 2022 , representing 7% of the total outstanding amounts managed within Assurance Groupe contracts (see Table BE.4).

Analyse of the different types of occupation pension plans

The following sub-sections cannot be updated this year, because FSMA publishes detailed information on the different types of occupational plans every two years. The following information and figures reported were provided as of January 1, 2022 and were extracted from FSMA's bi-annual reports published in 2023 (FSMA, 2023b).

Company pension plans (EUR 59.3 billion)

Company pension plans are prevalent within the second pillar:

- The total individuals' accrued reserves amounted to EUR 59.3 billion against 55.6 at end-2020 and 53 billion at end-2019. 75% of these reserves were managed by 19 insurance companies through Assurance Groupe Branch 21 or 23 contract (EUR 44.5 billion) and 25% were managed by 122 IORP (EUR 14.8 billion).

Table BE.4 – Total balance sheet managed in Pillar II (EUR bln.)

Year	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	n.a.	n.a.	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	39.0	1.4	40.5	51.6
2009	11.2	41.1	1.8	42.9	54.1
2010	13.9	44.1	1.8	45.9	59.8
2011	14.0	46.7	1.6	48.3	62.3
2012	16.4	47.9	1.7	49.6	66.0
2013	18.0	52.7	1.9	54.6	72.6
2014	20.7	55.8	2.1	57.9	78.6
2015	21.9	58.9	2.1	61.1	83.0
2016	26.8	60.9	2.4	63.3	90.1
2017	32.0	62.6	3.2	65.7	97.7
2018	31.4	64.2	3.7	67.9	99.3
2019	36.9	66.8	4.7	71.5	108.4
2020	39.7	69.2	5.2	74.4	114.1
2021	43.2	70.9	6.0	77.0	120.2
2022	37.0	72.2	5.5	77.8	114.8

Data: FSMA, BNB

- 2 117 139 employees were affiliated to a company pension plan. This is an increase of 4.3% from January 1, 2021.
- The total number of employers who implemented a collective pension commitment for the benefit of their workers was 60 762. This is an increase of 6% compared to January 1, 2020, when 57 800 employers set up a pension scheme (with one or more pension commitments). The number of company pension plans increased to 123 341, . It increased from 116 595 on January 1, 2020, against 116595 in 2020, representing an increase of 5.8%.

Private Supplementary Pensions for Company Director (supplementary pension plan for company directors (PLCDE)) (EUR 21.4 billion)

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 IORPs). FSMA provides the following data on Private Supplementary Pensions for Company Director (PLCDE) as of January 1, 2022 (FSMA, 2023a):

- 246 227 directors were affiliated to a PLCDE This is an increase of 5.9% from January 1, 2020.
- The total number of organisers who implemented an individual or collective pension commitment for the benefit of its director(s) was 223 913. This represented an increase of 7.3% from January 1, 2020.
- The total number of commitments dedicated to Director increased and reached 343 268. Most of commitments were DC (95%) and were dedicated for only one affiliate (98%).
- The management of the pension commitments were managed quasi-exclusively by insurances companies (99,9%).
- Total individuals' accrued reserves amounted to EUR 21.4 billion and the contributions amounted to 1 633 billion euros. These reserves increased by 9% when compared to January 1, 2020.

Private Supplementary Pensions for self-employed individuals (PLCI) (EUR 9.9 billion)

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. Self-employed individuals can save up to 8.17% of their income, without exceeding a maximum annually indexed amount (EUR 3 965.77 in 2024). These ceilings can be increased up to 9.40% and EUR 4 562.82 when a social convention is subscribed. FSMA provided the following information as of January 1, 2022:

- 531 376 self-employed individuals were covered by supplementary pension plans (PLCI convention).
- Total individuals' accrued reserves amounted to EUR 9.9 billion, which increased by 14.5% since January 1, 2020. 94.9% of these reserves were managed by insurance companies, predominantly by Branch 21 contracts.

Self-employed individuals can also supplement their PLCI with several solidarity benefits, called social conventions (INAMI convention). 176 068 self-employed individuals were affiliated to PLCI with a social convention as of January 1, 2022. 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.

Sector pension plans (EUR 5.4 billion)[4]

Sector pension plans are supplementary pension commitments set up on collective bargaining agreements and concluded by a joint committee or sub joint committee. In the joint committee/sub-committee, a sectoral organiser responsible for the pension commitment is appointed. At January 1, 2022, FSMA provides the following information:

- 57 joint or sub joint committees offered occupational pension schemes to employees. The number of employees covered by a sector pension plan reached 2 324 677, which represents an increase of 10% compare to January 1, 2020.
- There are 80 sector pension plans available for subscription. The total individuals' accrued reserves amounted to EUR 5.4 billion. It represents an increase of 1% when compared to January 1, 2020 Two third of these reserves were managed by 10 IORPs (EUR 3.6 billion) and a third by 7 insurance companies through Assurance Groupe Branch 21 or 23 contracts (EUR 1.8 billion).

Convention for self-employed as individuals (PLCIPP or CPTI) (EUR 152.2 million)

Since July 1, 2018, self-employed individuals without a company, can subscribe a pension agreement for self-employed individuals (CPTI), whether combined or not with a PLCI. FSMA provides information on this new type of pension agreement as of January 1, 2022:

- There were 6 703 pension agreements which covered 6 601 self-employed individuals. The number of individuals covered by a PLCIPP increased by 31% when compared to January 1, 2020.
- The total individuals' accrued reserves amounted to 152.2 million euros. 55.9% of reserves are managed by Branch 21 contracts, 32.5% by combined Branch 21 / Branch 23 contracts, 5.3% by Branch 23 contracts and 5.3% by IORPs.

[4] All data provided comes from plans for which information is available.

- The total amount of contributions amounted to 44.2 million euros in 2021.

Supplementary pension for employees (PLCS) (EUR 2.1 million)

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). FSMA published data as of January 1, 2022 :

- There were 1 118 pension agreements which covered 1 115 employees. The number of employees covered by a PLS was multiplied by 3,6 by two years. Most employees constituting pension rights under the PLCS signed only one agreement.

- The total accrued reserves amounted to EUR 2.1 million (against EUR 149 797 as of January 1, 2020).

- These pension agreements are managed by three insurance companies. 94% of reserves are managed by combined Branch 21/Branch 23 contracts and 6% by Branch 21 contracts.

Third pillar: pension savings products and long-term savings products (individual life insurance products)

The third pillar provides Belgians with individual private and voluntary pension products, which allow them to have tax reliefs from their contributions. Two types of products are available for subscription:

- Pension saving funds managed by asset management companies,

- Pension savings insurance (Branch 21 contracts) and long-term savings products (Branch 23 contracts managed by insurance companies.

The third pillar is significant in Belgium when compared to other European Union 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.[5] 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 35.1% being covered by pension savings funds (1.8 million Belgians).

The Belgian pension savings funds market remains relatively concentrated since the launch of the first funds in 1987. The market grew significantly in the past few years. 21 products (18 undertaking for collective investment in transferable securities (UCITS) and 3 alternative investment funds (AIFs) were available for subscription at

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

Table BE.5 – Pillar III pension savings products (EUR bln.)

Year	Net AuM in pension savings funds	Reserves managed in long-term pension products
2004	8.7	n.a.
2005	10.3	n.a.
2006	11.5	n.a.
2007	11.8	n.a.
2008	9.0	n.a.
2009	11.1	n.a.
2010	12.0	n.a.
2011	11.2	n.a.
2012	12.6	n.a.
2013	14.4	27.0
2014	15.6	27.9
2015	16.9	29.8
2016	18.0	30.6
2017	19.6	31.3
2018	18.2	31.7
2019	21.3	32.0
2020	22.3	31.5
2021	25.6	31.8
2022	22.1	31.5
2023	24.7	n.a.
Sources: BEAMA, Assuralia	n.a.	n.a.
n.a.	n.a.	n.a.

Data: BeAma, Assuralia, BNB

end-2023. The net assets under management reached EUR 24.7 billion (+11.8% over a year) in 2023 while the net sales remained high and amounted to EUR 398 million in 2023.

Charges

Information regarding costs applied to occupational pension funds in Belgium is only provided by FSMA in its biannual reports on the various products available for employees and self-employed individuals. FSMA provides information on management fees. There is no information regarding other costs and charges like entry fees. Assuralia provides some information on the administration and management fees and fees on commissions.

For the first time, FSMA publishes a report on the costs within the second and the third pillars. All data in this report was reported for the whole year 2020 (FSMA, 2024).

Charges of Pillar II products: Few data available

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 (FSMA, 2023b): Total operating expenses reached 0.15% of reserves in 2019 (see Table BE.6).

Table BE.6 – Costs and charges of Belgian IORPs (% of assets)

Year	Admin. and mgt. fees
2010	0.16%
2011	0.17%
2012	0.19%
2013	0.16%
2014	0.14%
2015	0.15%
2016	0.15%
2017	0.13%
2018	0.15%
2019	0.14%
2020	0.18%
2021	0.15%

Data: FSMA; *Calculations:* BF; *Note:* Average fees of sectoral plans managed by IORPs.

In its new publication on costs, FSMA reported average weighted fees of total provisions for IORPs in 2020 as follow:

- management fees: 0.17%;
- financial fees: 0.45%;
- total costs: 0.62%.

Charges in Assurance Groupe (Branch 21 contracts)

The only historical information on administration and management costs as well as commissions on a yearly basis is for Assurance Groupe contracts (Branch 21), reported by Assuralia (see Table BE.7).

In addition, FSMA publishes information regarding costs of sector pension plans. The level of fees varies considerably, ranging from 0.5% to 17.9% of premiums in 2021. Half of the sector plans managed by insurance companies levied charges lower than 2% of premiums in 2021.

This proportion remained stable since 2015. The management fees levied by sector pension plans represented on average 0.19% of reserves. 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.

In 2020, average weighted entry fees were 2.96% for Branch 21 contracts and 1.87% for Branch 23 contracts and the weighted average current costs were respectively 0.05% and 1.85% (FSMA, 2024).

Charges of Pillar III products: More transparent than Pillar II products

Pension savings funds

Historical data on charges for pension savings funds is difficult to obtain for investors. KIDs 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 2023:

- Entry fees: 2.24% of initial investment;
- Management fees: 1.04% of AuM;
- Total Expenses Ratio represented on average 1.37% of AuM;
- No exit fees.

Table BE.8 summarises the Total Expense Ratio (TER) of 21 available funds for subscription in the Belgium market since 2013. Charges remained stable in 2023 when compared to 2022. One can notice that information regarding costs is more detailed in KIDs or factsheets available on providers' website, with more information on how the different costs impact the return of investments depending on duration.

Table BE.7 – Costs and charges of Belgian "assurance groupe": branch 21 (% of assets unless otherwise specified)

Year	Acquisition fees*	Admin. and mgt. fees
2002	1.20%	1.21%
2003	1.30%	0.98%
2004	1.20%	0.84%
2005	1.40%	0.93%
2006	1.20%	0.90%
2007	1.40%	0.80%
2008	1.50%	0.83%
2009	1.30%	0.79%
2010	1.50%	0.72%
2011	1.50%	0.71%
2012	1.50%	0.71%
2013	1.50%	0.69%
2014	1.60%	0.68%
2015	1.60%	0.62%
2016	1.60%	0.60%
2017	1.80%	0.59%
2018	1.40%	0.59%
2019	1.50%	0.57%
2020	1.50%	0.57%
2021	1.30%	0.57%
2022	1.20%	0.59%

Data: Assuralia; *Calculations:* BF.
* % of premiums

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).

FSMA reported average weighted entry fees of 6.32% for Branch 21 and of 2.83% for Branch 23 contracts in 2020. Average weighted current costs were lower than entry fees and represented 0.06% of provisions for Branch 21 contracts and 2.34% of provisions for Branch 23 contracts.

Table BE.8 – Costs and charges of Belgian pension savings plans (% of assets unless otherwise specified)

Year	Entry fees*	Admin. and mgt. fees	Total Expense Ratio
2013	2.20%	1.00%	1.23%
2014	2.20%	1.00%	1.24%
2015	2.20%	1.00%	1.29%
2016	2.81%	0.93%	1.26%
2017	2.21%	0.94%	1.26%
2018	2.32%	0.93%	1.24%
2019	2.37%	0.95%	1.28%
2020	2.38%	0.95%	1.28%
2021	2.29%	0.95%	1.29%
2022	2.24%	1.02%	1.38%
2023	2.24%	1.04%	1.37%

Data: Financial statements of individual pension savings funds; *Calculations:* BF. * % of contributions

Table BE.9 – Costs and charges of Belgian long term insurance products (branches 21 and 23) (% of assets unless otherwise specified)

Year	Acquisition fees*	Admin. and mgt. fees
2002	3.65%	1.20%
2003	3.35%	1.80%
2004	3.15%	1.40%
2005	2.65%	0.50%
2006	4.05%	0.50%
2007	4.40%	0.45%
2008	5.40%	0.55%
2009	5.70%	0.45%
2010	5.25%	0.40%
2011	5.30%	0.40%
2012	4.75%	0.40%
2013	6.80%	0.45%
2014	6.50%	0.50%
2015	7.00%	0.45%
2016	6.85%	0.45%
2017	7.10%	0.50%
2018	6.90%	0.50%
2019	6.85%	0.45%
2020	7.50%	0.45%
2021	7.80%	0.50%
2022	7.60%	0.54%

Data: Assuralia; *Calculations:* BF.
* % of premiums

Taxation

Table BE.10 – Taxation of pension savings in Belgium

Product	Phase			Regime
	Contributions	*Investment returns*	*Payouts*	
IORP	Exempted	Exempted	Taxed	EET
"Assurance Groupe": Branch 21	Exempted	Exempted	Taxed	EET
"Assurance Groupe": Branch 23	Exempted	Exempted	Taxed	EET
Pension savings plans	Exempted	Exempted	Taxed	EET
Long term insurance products (Branches 21 and 23)	Exempted	Exempted	Taxed	EET

Source: Wikifin.be, Assuralia.

Taxation of occupational pension plans (pillar II)

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 savings 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;
- *Institut National d'Assurance Maladie-Invalidité* (INAMI) 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 BE.11 are applied to taxation on benefits from occupational pension plans. Before July 2013, benefits from employer's contributions were taxed at the flat rate of 16.5% regardless the beneficiary's age at the time of the payment of the benefits. The local tax can vary from 0% to 10%, with an average of 7%.

Table BE.11 – 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 contributions	Benefits from employer's contributions	Benefits from employee's contributions	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% 62-64 years old: 16.5%	10% for contributions made since 1993	
+ local tax	+ local tax	+ local tax	+ local tax

Source: Assuralia, Wikifin.be.

Periodic annuities Periodic annuities are considered as an income and are taxed at the applicable progressive personal income tax rate.[6]

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

Taxation of voluntary pension savings products (pillar III)

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 (see below and Table BE.12).

Tax relief on contributions during the accumulation phase: From 2012 to 2018, a tax relief rate equal to 30% of the contributions was applied, regardless of the taxpayer's income. In 2018, to further promote contributions into pension savings products (fund or life-insurance contracts), a two-tax relief system was introduced. The amount of the individual contribution determines the tax relief, depending on two annual ceilings. Despite high inflation, the two ceilings on contributions to benefit from tax relief was frozen from 2020 to 2023 (respectively EUR 990 and EUR 1 270). In 2024, individuals can make contributions into pension savings products up to these two annual ceiling ceilings:

- For any contribution less or equal to EUR 1 020, individuals can still benefit from a 30% tax relief rate. This may result in a maximum tax relief of EUR 306 per

[6] 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.

year.

- If the individual chooses to save above EUR 1 310 and informs the provider of the product, he/she can benefit from a tax relief rate equal to 25%. The maximum contribution cannot exceed EUR 1 270, with a maximum tax-relief of EUR 327.5. This tax relief rate is more advantageous only if the individual saves at least EUR 1 224. Otherwise, the individual will benefit from a smaller tax advantage than if he/she opts for the first ceiling.

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 January 1, 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 December 31, 2014) are subject to a tax of 1% each year, which constituted an advance on the final tax due.

Table BE.12 – Taxation of pension savings products (funds and insurance)

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

Source: Assuralia, Wikifin.be.

Performance of Belgian long-term and pension savings

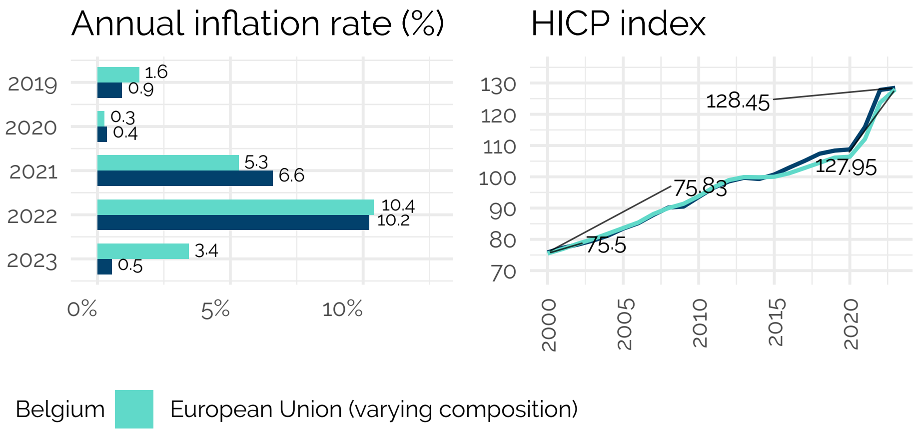
Real net returns of Belgian long-term and pension savings

The evolution of inflation in Belgium used to follow the evolution of inflation in the EU. As in all European countries, the inflation started to increase in 2021 in Belgium, with the outbreak of the war between Ukraine and Russia and the increase in energy prices. The inflation continued to rise and sky-rocketed and became higher than the average EU inflation in 2021 (6.59% against 5.31%). It reached a similar level in 2022 (10.21% against 10.39%). In 2023, the inflation rate declined to reach 0.5%, thanks to a decrease in energy prices.

Figure BE.2 – Inflation in Belgium

Period 2000–2023

	Annualised	Cumulated
Belgium	2.3%	74.4%
European Union (varying composition)	2.3%	73.2%



Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Pillar II: IORPs and Assurances Groupe contracts

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 IORPs 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 January 1, 2016, 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) may affect negatively 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, employers and pension product providers have to agree on the rules to apply in terms of the minimum guaranteed return.

Occupational pension plans managed by IORPs

In 2022, among the 159 pension plans managed by an IORP[7], 133 had a promise of returns (DB plans) or were hybrid plans (Cash Balance, DC+ rate), 26 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 Belgian occupational pension plans association reported an average return of 9.49% in 2023. 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 2023.[8] PensioPlus reported the nominal and real net returns of IORP since 1985. These funds experienced 9 years of negative returns over 38 years.

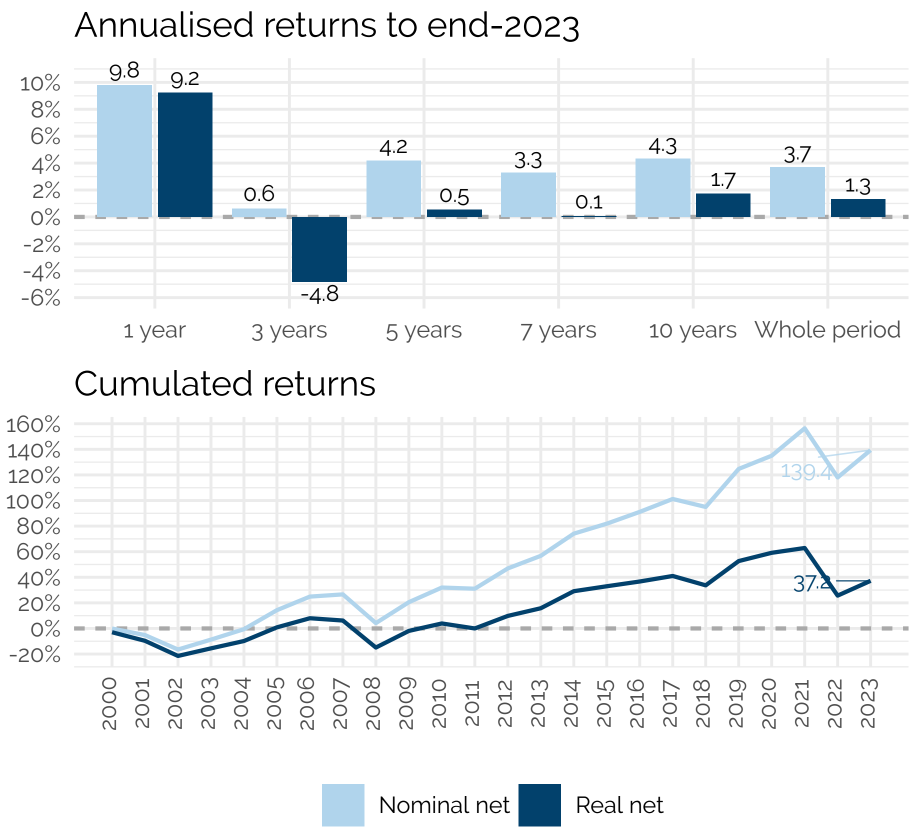
Over a 24-year period (2000-2023), occupational pension plans managed by IORPs experienced negative nominal returns before charges seven times: in 2001, 2002, 2008, 2018 and in 2022. Over this time-period, their annualised nominal and real net returns are positive, respectively 3.7% and 1.33%.

PensioPlus reported the average asset allocation of IORP at end-2023, as follows: 34.7% in equities, 49.6% in fixed-income, 2.7% in real estate, 3% in cash and 10% in other asset classes. The proportion of fixed income assets still represented the largest part of assets, and it increased while the proportion of equities continue to decrease (see Figure BE.4).

[7]The 159 pension plans include both IORPs for the first and second pillars

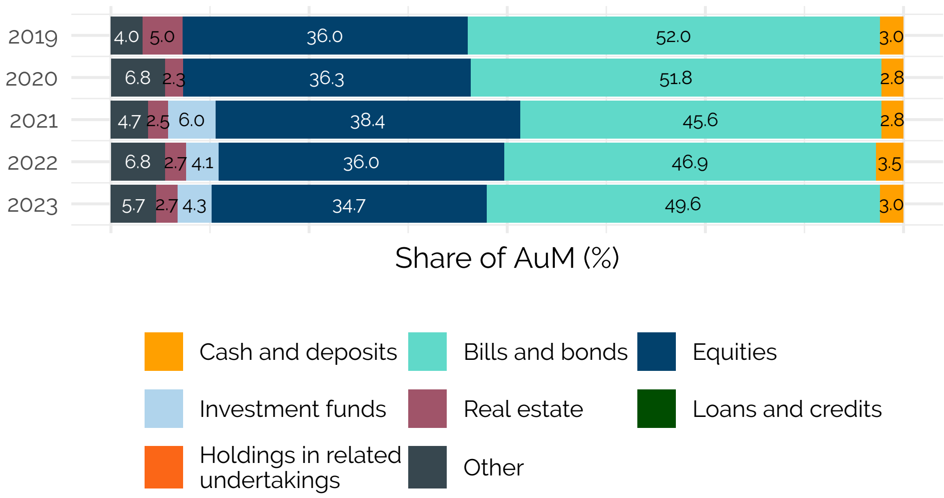
[8]The participants to the annual Pensio's Plus survey represented 85% of the market share in terms of asset under management in 2022.

Figure BE.3 – Returns of Belgian IORPs (before tax, % of AuM)



Data: PensioPlus, Funds' annual reports, Eurostat; *Calculations:* BETTER FINANCE, hold periods to end-2023.

Figure BE.4 – Allocation of Belgian IORPs' assets



Data: FSMA; *Calculations:* BETTER FINANCE.

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

In the second pillar, most of pension products are managed by insurance companies through Assurance Groupe Branch 21 contracts.

Assuralia used to reports net returns after charges in percentage of the total reserves of Assurance Groupe Branch 21 contracts in its annual report this report, until 2014.[9] In May 2023, 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 2018,2.63% in 2017, 2.91% in 2016 and 3.01% in 2015, (see FSMA, 2023b). The downward trend that has been observed for several years is confirmed. The same assessment is observed for PLCI conventions.

The minimum guaranteed return of PLCI varied between 0% and 4.75%. Some conventions subscribed before July 1, 1999, offer a guaranteed return of 4.75% on past and future premiums. A self-employed individual who subscribes to a PLCI convention had on average a return of 2.36% on his/her contracts in 2021 (against 2.5% in 2019, 2.64% in 2017 and 2.75% in 2015). It corresponded to an average guaranteed return of 1.53% and a participation to benefits equal to 0.48%.

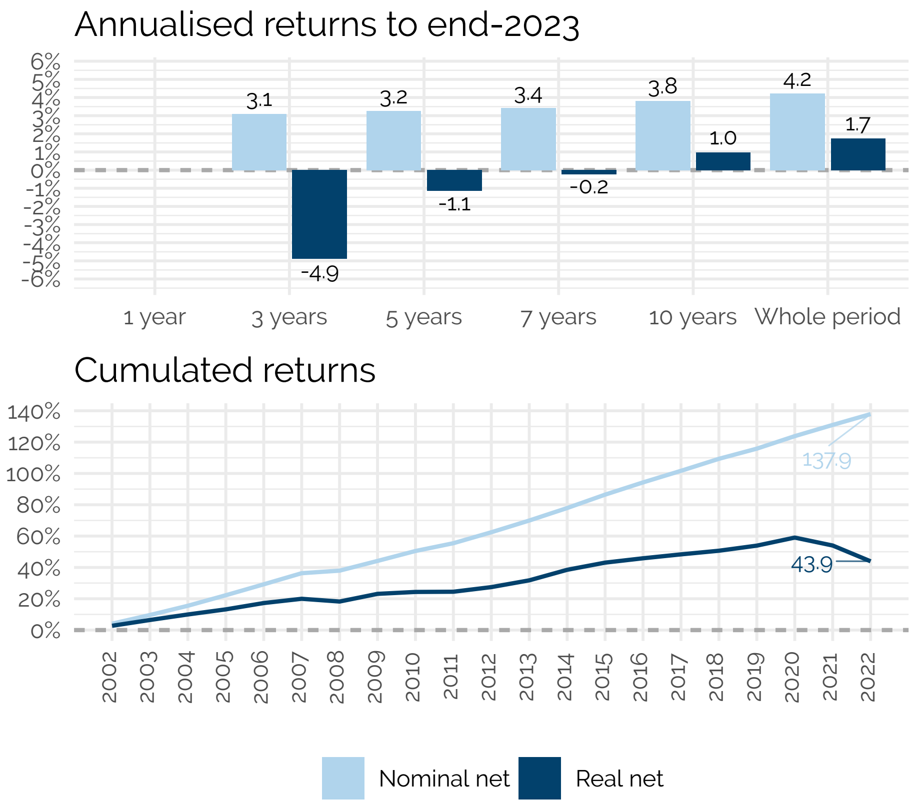
With the decline in the return on the Belgian 10-year government bonds since 2011, insurance companies were forced to decrease the guaranteed minimum return offered to new contributions on Assurance Groupe Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on 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.

This year, we tried to compute returns of Assurance Groupe Branch 21 by using data provided by the National Bank of Belgium, who publishes statistics of direct life insurance operations in Belgium each year. We compute the ratio of financial remuneration received on investments made by insurance companies over their provisions. For the period 2007-2014, our results we very close to Assuralia's data. It gives an insight of how Assurance Groupe Branch 21 evolved over 2002–2022. (see Page 27)

Over the period 2002-2022, the annualised net and real returns of Assurance Groupe Branch 21 contracts are positive, respectively 4.21% and 1.75%.

[9] In November 2022, Assuralia published its annual report including Statistics for the whole year 2021.

Figure BE.5 – Cumulated returns of Belgian Assurance Groupe: Branch 21 (before tax, % of AuM)



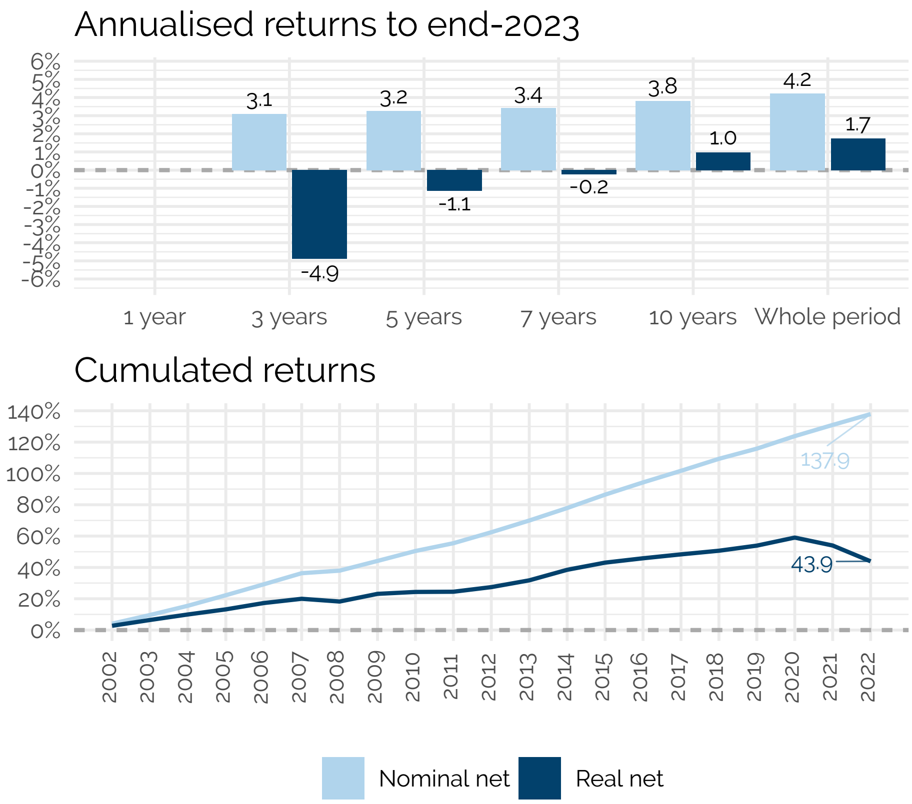
Data: National Bank of Belgium, Assuralia, Eurostat; *Calculations:* BETTER FINANCE, ho periods to end-2023 (data for 2023 are unavailable, this year is excluded from the calcul annualised returns).

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

Returns on Assurance Groupe Branch 23 contracts are variable and depend on the performance of underlying assets. These contracts experienced negative returns in 2011, 2018 and probably in 2022. Their net average returns are very close to those of occupational funds managed by IORPs (around -4% in 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 guaranteed minimum return on their contributions, which is currently equal to 1.75% since 2016 and until the end of 2024. When the affiliate claim for its pension rights, if the final payment is less than the amount including the minimum guaranteed return, the employer must pay the difference.

Figure BE.6 – Cumulated returns of Belgian Assurance Groupe: Branch 21 (before tax, % of AuM)



Data: National Bank of Belgium, Assuralia, Eurostat; *Calculations:* BETTER FINANCE, ho periods to end-2023 (data for 2023 are unavailable, this year is excluded from the calcul annualised returns).

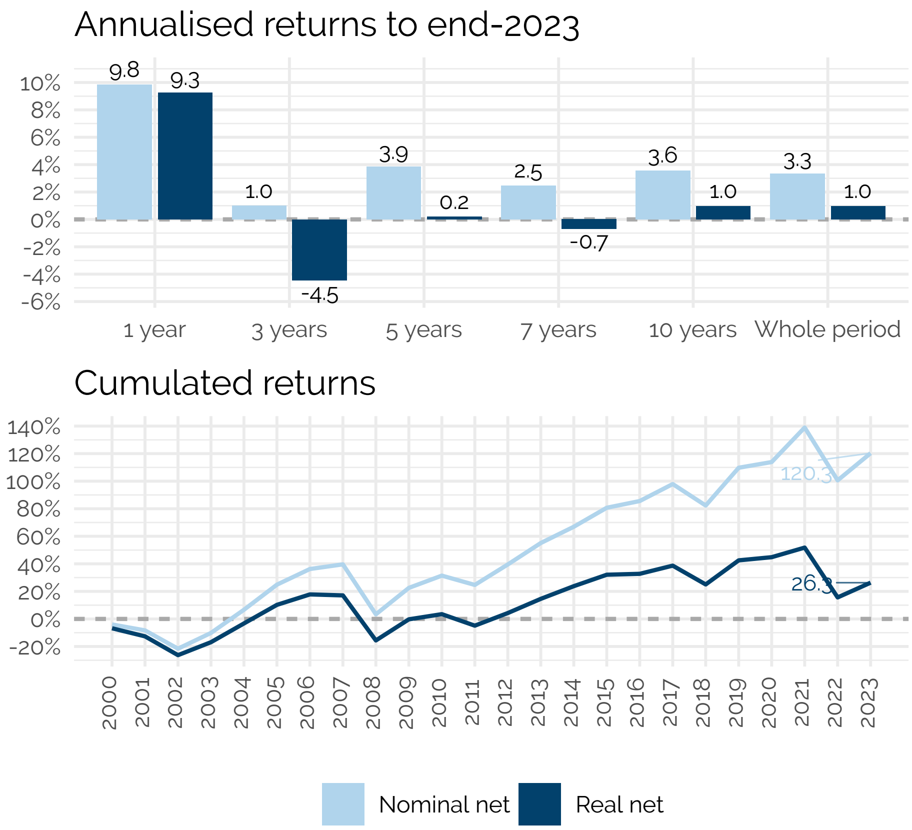
Pillar III: Personal pension savings products (pension savings plans and long-term insurance products)

Pension savings funds managed by asset management companies

The Belgian Asset Managers Association (BEAMA) provides quarterly data on pension savings funds. The most recent data regarding their returns was on an annual basis at end-2023. 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 figures (see Figure BE.8) show the average returns of all available funds for subscription in the Belgian market from 2000 to 2023. Pension savings plans and IORPs have a performance that evolved similarly.

Figure BE.7 – **Returns of Belgian Pillar III pension savings plans (before tax, % of AuM)**



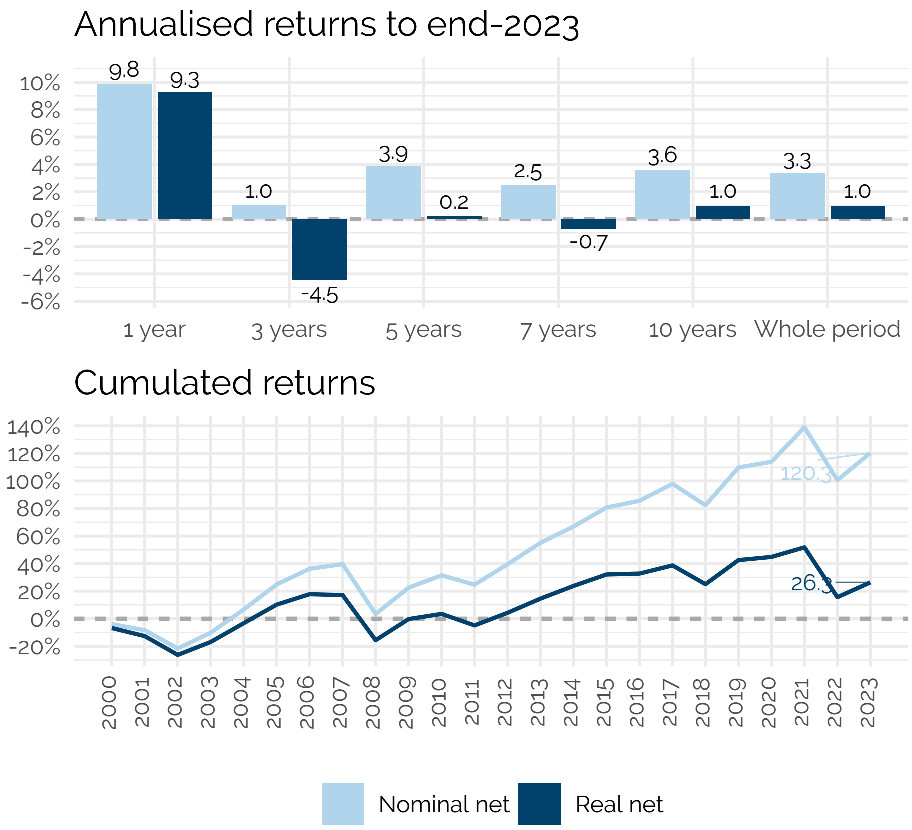
Data: BeAma, Funds' annual reports, Eurostat; *Calculations:* BETTER FINANCE, holding to end-2023.

Pension savings plans experienced negative performance in the same years (2002, 2008, 2011, 2018 and 2022). High inflation impacted negatively the annualised real net returns Unlike occupational pension plans, these pension savings funds are not obliged to pay a guaranteed return to retirees. Over the 24-year period (2000-2023), their annualised nominal and real net returns are positive, respectively 3.3% and 1%. These returns are very close that of IORPs' ones (respectively 3.7% and 1.33%).

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

To prepare their retirement, Belgian can also subscribe voluntarily pension savings insurance or 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, which called Branch 44 contracts. Assuralia used to report net returns after charges in percentage of the total reserves managed through Branch 21 and Branch 23 contracts, until 2014. This information gave an insight into returns of re-

Figure BE.8 – Returns of Belgian Pillar III pension savings plans (before tax, % of AuM)



Data: BeAma, Funds' annual reports, Eurostat; *Calculations:* BETTER FINANCE, holding to end-2023.

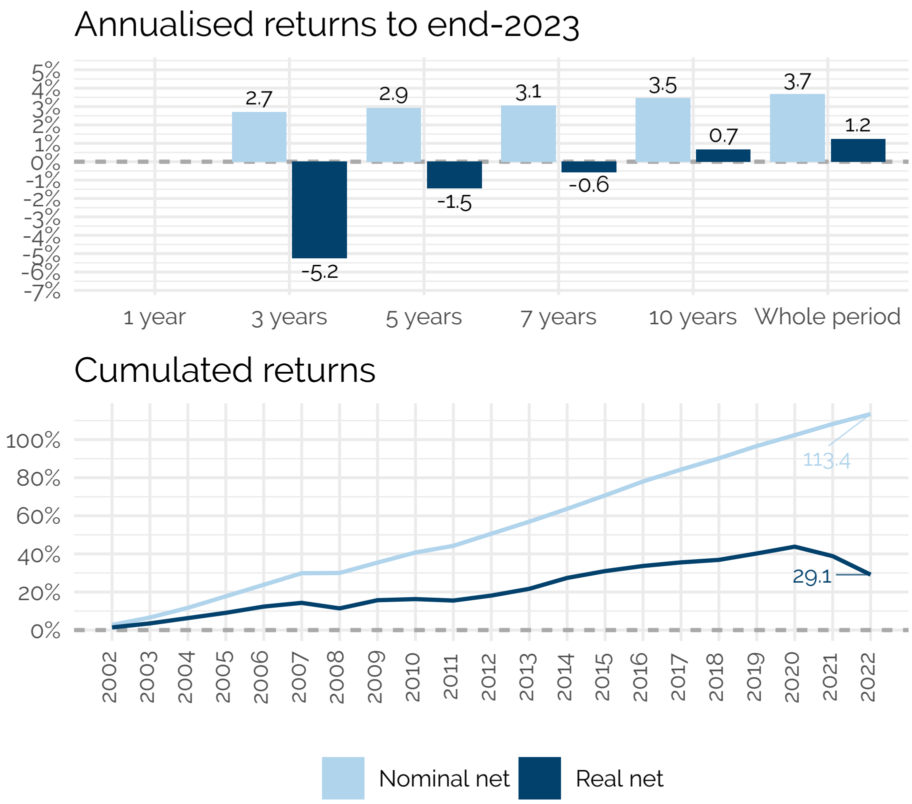
serves invested within the third pillar.

However, since 2015 Assuralia no longer provides information regarding pension savings insurance and long-term savings products in its annual publication. For individual life-insurance Brach 21 contracts, as for Assurance Groupe Branch 21 contracts, we used statistics of direct life insurance operations in Belgium to compute the ratio of financial remuneration received on investments made by insurance companies over their provisions (see Page 25).

Over the whole period from 2002-2022, the net annualised return is positive to 3.68% for Branch 21 contracts. The high inflation in 2021 and 2022 impacted negatively the annualised real return, which is 1.22% over 21-year period.

Figure BE.10 represents the returns of Belgian insurance products (Branch 21) dedicated to prepared retirement.

Figure BE.9 – Cumulated returns of Belgian long-term insurance products (branch 21, before tax, % of AuM)



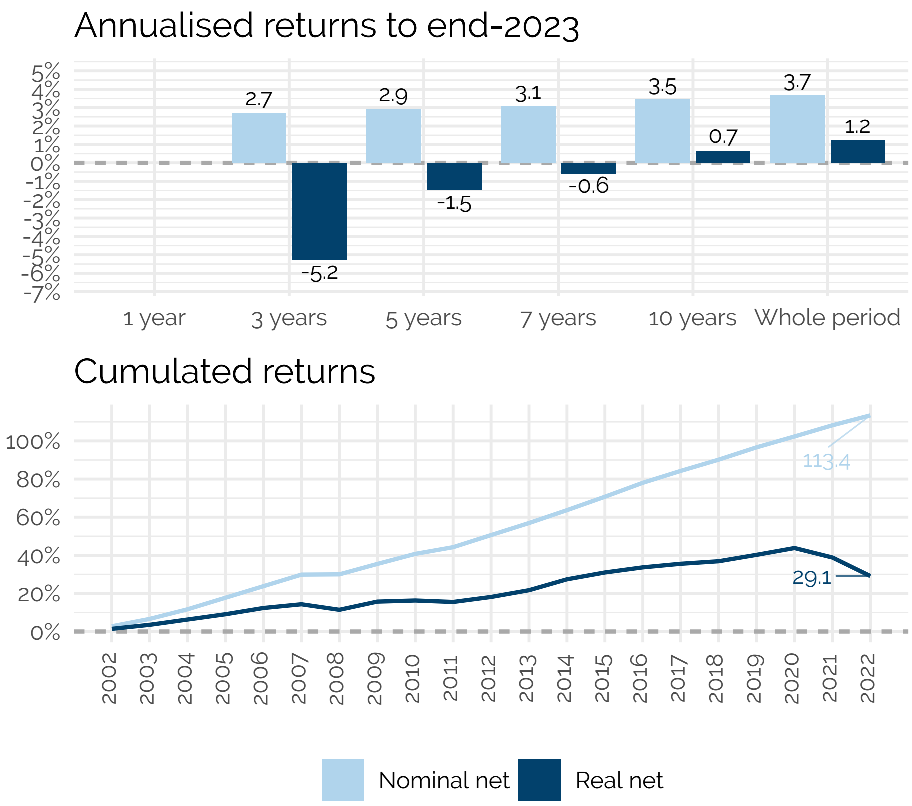
Data: , Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023 (data for 2 are unavailable, this year is excluded from the calculation of annualised returns); *Note:* Data for Branch 23 contract are insufficient to compute returns..

Returns in comparison

Figures BE.11 and BE.12 summarise the annualised returns of Belgian long-term and pension vehicles over varying holding periods and show their cumulated returns. Performance of IORPs and pension savings funds within the third pillar evolved similarly over the time. Despite some years with negative performance, these products offered a positive real net return in a long-term period (24 years) which are quite low, respectively 1.33% and 1%.

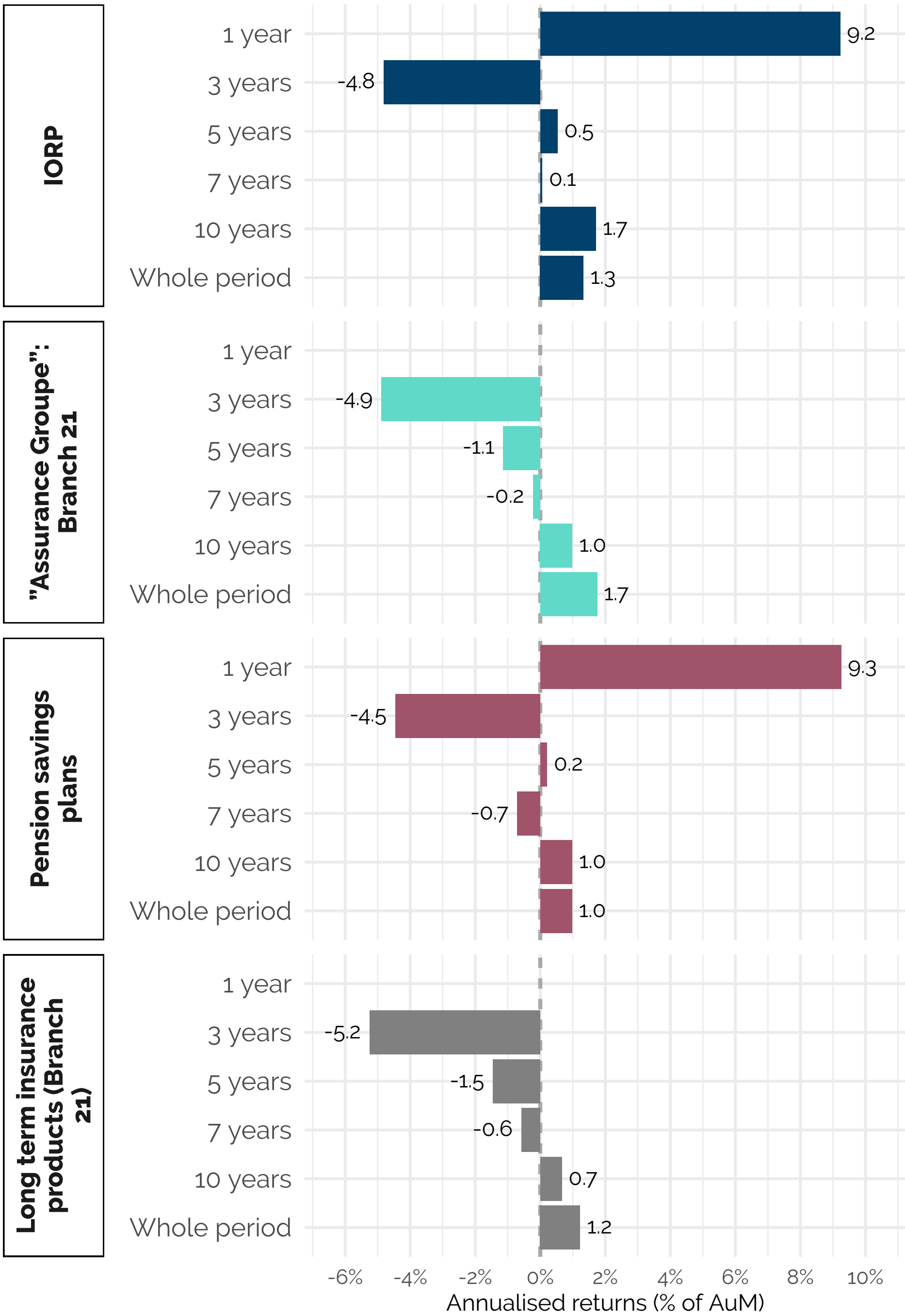
Information on returns of insurance products within the second and third pillar are fragmented. It is more difficult to see their real performance in the long run. It is interesting to remind that Assurance Groupe products offered a guaranteed minimum return (see above).

Figure BE.10 – **Cumulated returns of Belgian long-term insurance products (branch 21, before tax, % of AuM)**



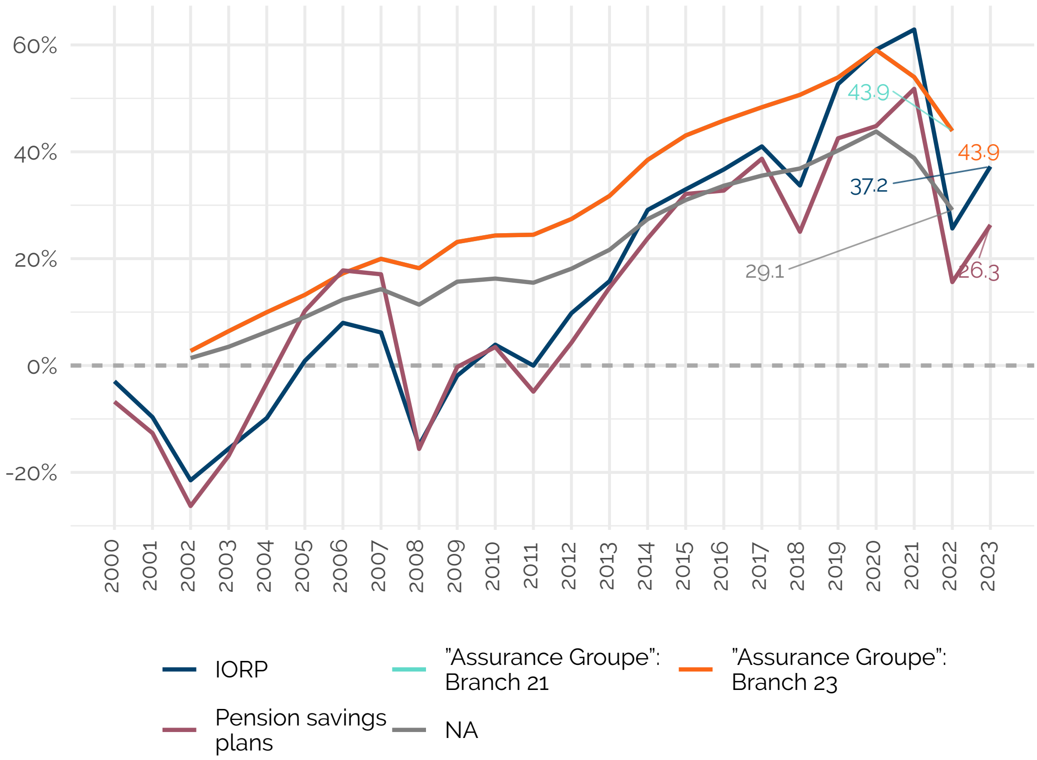
Data: , Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023 (data for 2 are unavailable, this year is excluded from the calculation of annualised returns); *Note:* Data for Branch 23 contract are insufficient to compute returns..

Figure BE.11 – Annualised returns of Belgian long-term and pension vehicles to end-2023 (before tax, % of AuM)



Data: PensioPlus, National Bank of Belgium, BeAma, Funds' annual reports, Assuralia, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure BE.12 – Cumulated returns of Belgian long-term and pension savings vehicles (2000–2023, before tax, % of AuM)



Data: PensioPlus, National Bank of Belgium, BeAma, Funds' annual reports, Assuralia, Eurostat; *Calculations:* BETTER FINANCE.

Do Belgian savings products beat capital markets?

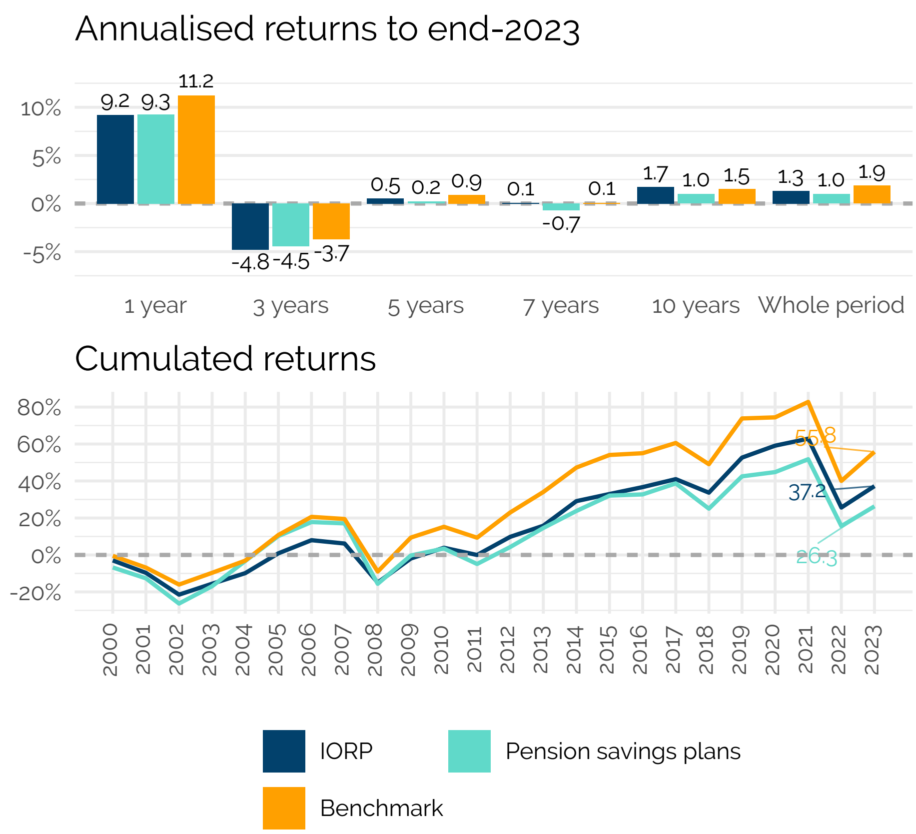
In the long run IORPs (pillar II) and pension savings plans (pillar III) evolved in the same way. Large parts of their assets are invested in equities and in bonds, it is interesting to compare their evolution with a benchmark portfolio with equal holdings of equity and bonds (see Table BE.13 and methodology in the introductory chapter for more details). Both IORPs and pension savings funds have the same trend as the benchmark over the period 2000-2023. Nevertheless, the benchmark and pension savings plans had almost the same performances from 2003 to 2007 (see Figure BE.13). Then, the gap of cumulative performance increased and it widened between 2018 and 2021, as the benchmark's performance increased faster over this period. Over the same period, the gap of cumulative performance between the IORPs and the benchmark is less important. Thus, the annualised returns of IORPs are higher than that of the benchmark over varying periods, except over the whole period. Over the period 2002-2023, the annualised return of IORPs is higher of 0.48 percentage point. While the annualised return of pension savings plans is lower of 0.84 percentage point.

Table BE.13 – Capital market benchmarks to assess the performance of Belgian pension vehicles

Product	Equity index	Bonds index	Allocation
IORP	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
"Assurance Groupe": Branch 21	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
"Assurance Groupe": Branch 23	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Pension savings plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Long term insurance products (Branch 21)	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%

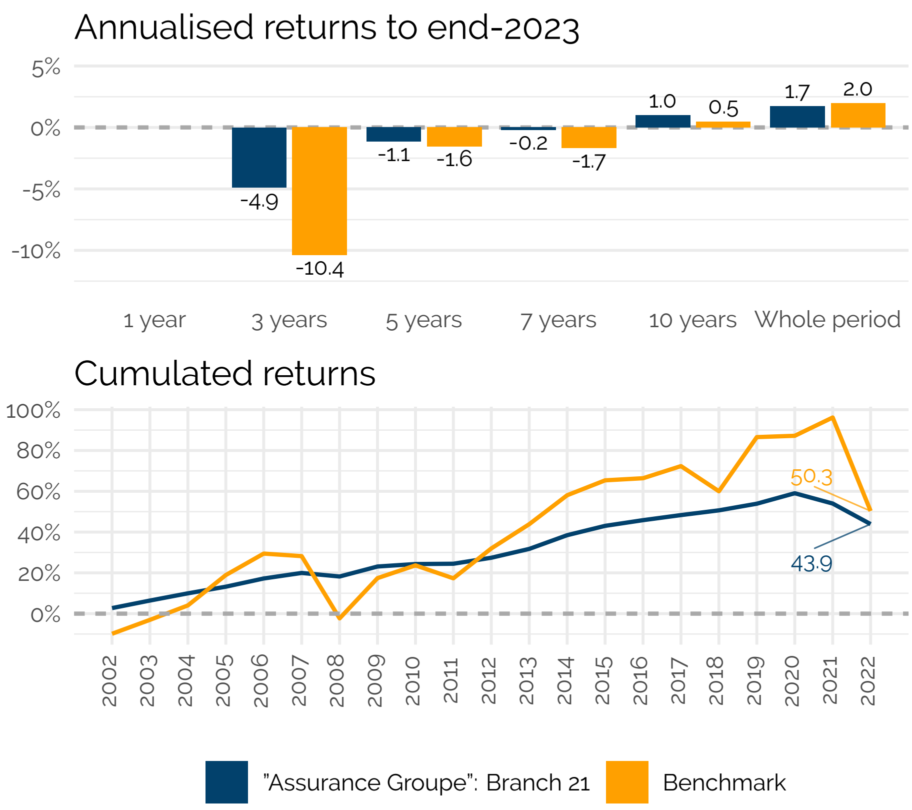
Note: Benchmark porfolios are rebalanced annually.

Figure BE.13 – Performance of Belgian IORPs and Pension savings plans against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: PensioPlus, BeAma, Funds' annual reports, Eurostat; *Calculations:* BETTER FINAN
holding periods to end-2023.

Figure BE.14 – **Performance of Belgian Assurance groupe and long term voluntary insurance products against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: National Bank of Belgium, Assuralia, Eurostat; *Calculations:* BETTER FINANCE, ho periods to end-2023 (data for 2023 are unavailable, this year is excluded from the calcul annualised returns).

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 risen to 2.5% from January 1, 2025 , 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;

Over a 24-year period (2000–2023), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) have a real annualised return before taxation of 1.4% and 1.0% respectively. A benchmark composed of 50% of equities and 50% of bonds overperformed both IORPs and pension savings funds over the whole period. High inflation impacted negatively the performance of both products.

It is quite difficult to find information on returns of pension vehicles managed by insurance companies. Neither FSMA, nor Assuralia provide regularly information on these pension products. For a Belgian it is difficult to obtain clear information on returns of his/her pension products even on his/her personal on-line account at mypension.be. The final remuneration can vary from one provider to another depending on the agreement made with employers, notably regarding the guaranteed minimum return.

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.

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%. Since 2016, guaranteed minimum return of new Assurance Groupe Branch 21 contracts decreased years after years and is now below 3%.

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