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The Privatization of Welfare States: Industrial Relations as a Source of Benefits
Database Part 2: Social Benefits in Collective Agreements
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Pension in Belgium

1. Introduction

Overview

The Belgian pension system has three main pillars plus one additional pension provision:

- The first pillar contains three major public schemes: one for dependent employees, one for self employed, and one for civil servants. The system for employees in the private sector is a pay-as-you-go system based on contributions and subsidized by government grants and other sources. The pension scheme for self employed is financed by contributions based on net income. In the case of civil servants, the federal government pays the full costs (Anderson et al. 2007: 314-315).
- Second pillar: The first pillar pension of an employee is often topped up by a second pillar pension (Anderson et al. 2007: 315). The second pillar is private and voluntary and there are three different options: individual company pension for a specific employee, collective company pension for a group of employees, and sectoral pension scheme (Fontana 2008: 5). All these options are based on collective agreements, but as the first two options are set up at company level it is the last one which is of special interest in this report. The two company schemes have been the most important arrangements because they have traditionally been dominant in the second pillar. But the awareness as well as the regulation of sector level pensions have increased in the last ten years (Fontana 2008: 7-

8). In addition, it must be mentioned that when setting up a new scheme at any level, social partners may agree on a so called social pension which provides additional coverage for impacts of inactivity (e.g. unemployment, maternity leave, illness) (Fontana 2008: 7-8).

- Third pillar: Voluntary private pension is also possible in Belgium (Anderson et al. 2007: 316). This pillar is administrated by licensed private life insurance companies and pension funds. Compared to other EU member states, this pillar has been very pronounced in Belgium (Fontana 2008: 5).
- Furthermore, there is a minimal pension and social assistance (Fontana 2008: 5).

The role of collective labor agreements (CLAs):
As mentioned above, the role of social partners and of collective bargaining are of most importance in the second pillar. This pillar is set up through CLAs and administrated by the social partners (Fontana 2008: 5).

Levels of Bargaining

- Individual company pensions are provided by the employer only. Collective company pensions are negotiated at company level via the company's labor regulations (Walthery 2004: 4).
- Concerning sectoral pensions, which is of most interest here, bargaining between social partners takes place at sectoral level. Actually, the schemes are set up by paritary commissions which are set up by law and exist in every sector (Walthery 2004: 4).

Actors

Main trade unions that are involved in the negotiation of pension CLAs (EIRO 2009: Main Actors):

- CSC/ACV (*Confédération des Syndicats Chrétiens/Algemeen Christelijk Vakverbond*, Confederation of Christian Trade Unions),
- FGTB/ABVV (*Fédération Générale du Travail de Belgique/Algemeen Belgisch Vakverbond*, Belgian General Federation of Labour),
- CGSLB/ACLVB (*Centrale Générale des Syndicats Libéraux de Belgique/Algemene Centrale der Liberale Vakbonden van België*, General Confederation of Liberal Trade Unions of Belgium).

Main employers' organizations that are involved in the negotiation of pension CLAs (EIRO 2009: Main Actors):

- FEB/VBO (*Fédération des Entreprises de Belgique/Verbond van Belgische Ondernemingen*, Federation of Enterprises in Belgium),
- UCM (*Union des Classes Moyennes*, French-speaking Union of Self-Employed),
- UNIZO (*Unie van Zelfstandige Ondernemers*, Flemish Organization of the Self-Employed).

Critical Junctures

Definition: Critical junctures are years or time periods when important decisions on the development of the collectively negotiated pension scheme were made.

Concerning pensions based on sectoral CLAs, we have identified the following three critical junctures:

- Until 1987 the first pillar of the pension system was seen as good enough for the whole pension system. Therefore, the legal framework for second pillar pension schemes was limited to company pensions and did not exist for the rather uncommon pensions based on sectoral CLAs. In 1987, first proposals have been made to find a comprehensive solution for the whole second pillar (Fontana 2008: 6).
- *Colla* Act of 1995 (entered into force in 1996): Second pillar pensions were still not seen as a real part of social security. But at least the security of pension money, participation of employees, and transportability of second pillar pensions were improved (Fontana 2008: 6).
- The 2003 reform (entered into force in 2004), also known as the *Vandenbroucke* law: The aim of the law was to strengthen the second pillar and to make this pillar cover more employees than before. In addition, there was now a unified framework for all types of second pillar pensions including those at sectoral level. Until this reform, sectoral pensions were neither authorized nor forbidden by the state. Also, one goal was to democratize the occupational pensions by promoting the so far almost unknown sectoral pensions and by introducing a so called social pension status. These new social pensions provide additional coverage for impacts of inactivity (e.g. unemployment, maternity leave, illness) (Fontana 2008: 7). The *Vandenbroucke* law was influenced by the adoption of a sectoral agreement in 2000 in the metal working industry which introduced a sectoral pension for more than 100,000 workers. This agreement made clear that there is a lack of state control over sectoral pensions and it brought this rather unknown type of pension on the public agenda (Fontana 2008: 7-8). The fact that popularity of sectoral pensions is

rather new can be shown with the following number: out of the 20 current sectoral pension schemes 13 have been introduced since 2000 (CBFA 2007: 7).

2. Important Collective Agreements (Examples)

Unfortunately, we cannot deliver information on concrete agreements. But see section 3 for important sectors that have established collectively negotiated sectoral pension schemes.

3. Important Sectors

The sectoral paritary commissions that have set up one or more sectoral pension schemes are listed below (27 sectors) (CBFA 2009: 11-12):

- concrete industry,
- metal building, mechanical and electrical sector,
- arage companies,
- food industry,
- preparation of flax,
- construction,
- trade fuels,
- river navigation,
- recovery of metals,
- sea fishery,
- electricians,
- '*carosserie*',
- metal trade,
- employees of metal fabrication,
- employees employed at the notaries,
- employees of international trade, transportation and logistics,
- port of Antwerp,
- stage and theatre,
- industry of gas and electricity,
- urban transport in the region of Flanders,
- urban transport in the region of Brussels,
- cleaning,
- business of technical agricultural and horticultural work,

- transport and logistics,
- agriculture,
- horticulture enterprises,
- and industry and trade of diamonds.

The largest two sectors are the following: the metal building, mechanical and electrical sector, and the construction sector (CBFA 2009: 18).

4. Structure, Organization and Mode of Administration

- Sectoral pension schemes are either organized as a pension fund scheme or as an insurance scheme. If a sector implements a scheme, it can only implement one of these two options (Pension Funds Online 2010). The concrete vehicle is specified in the CLA. Most of the sector pension schemes are administrated by insurance companies. But the two largest schemes (the metal building, mechanical and electrical sector, and the construction sector) are administrated by a pension fund (OECD 2009: 169). These sectors are very important because almost 50 per cent of the employees that are covered by a sectoral scheme work in these two sectors (see also section 8) (CBFA 2009: 18).
- Pension funds may be active as a foundation or as a mutual insurance association (Pension Funds Online 2010). Sectoral pensions funds are managed by the social partners in paritary commissions at sectoral level. They must have a board of directors and a management board (Walthery 2004: 6).
- Social pensions: These commitments include some form of risk sharing between employees and employers. There is an additional solidarity fund for these schemes (Walthery 2004: 4).

5. Role of the State: Financial Support, Legislation, and Extension Procedures

Vandenbroucke Law of 2003:

- It is a general law on complementary pensions applicable to workers in Belgium. It regulates the establishment of complementary occupational pension plans, coverage, waiting period, vesting and the options for plan members upon termination of employment before retirement. The law replaces the first general law on complementary pensions of 1995 (ISSA 2008).

- The law has unified the framework for complementary pensions at company level and at sectoral level. For the first time, the framework of sectoral pensions schemes has been regulated by the state. Furthermore, the status of social pension commitment has been regulated by this law (Walthery 2004: 2).
- Taxation of schemes that are funded through funds: Employers' contributions are tax deductible as long as the sum of all pensions of an employee is not higher than 80 per cent of the gross annual wage. There is a 4.4 per cent tax for employee contributions. However, in case of social pensions, this tax does not apply (Pension Funds Online 2010). Furthermore, pension fund assets are taxed at 0.17 per cent and investment income at 15 per cent, or at 25 per cent on dividends from shares. Benefits are taxed as income, but there are tax credits for retirees. Lump sum payments are taxed with a flat rate tax (OECD 2009: 169-170).
- If a scheme is granted the social pension status, it must contain provisions in order to compensate for workers or sometimes employers inability to pay the pension premiums for a limited duration (Walthery 2004: 7). In return the normal 4.4 per cent tax on pension premium will not apply. Provisions (among others) that must be provided in collective agreements in order to set up social pensions are as follows: continued payment of pensions contributions during non-voluntary temporary unemployment up to one year, same during maternity leave and bankruptcy of the employer up to six months, periods during which the employee has reduced his working time up to one year will be exonerated from the limit put on wage increases by the law (Walthery 2004: 4).

6. Financial Structure of the Collectively Negotiated Schemes

- The schemes are capital based and not set up as pay-as-you-go systems. However, the 2003 reform provides incentives for social pensions to include some repartition features in case of particular risks (Walthery 2004: 5).
- Generally, contributions can be paid by both employees and employers. The contribution level is set by the social partners through the CLAs (Walthery 2004: 4). According to the Banking, Finance and Insurance Commission (*Commission bancaire, financière et des assurances*, CBFA) (CBFA 2009: 9), in the majority of the schemes the contributions are paid by the employers only. According to OECD (2009: 169), the actual contribution rate of sectoral pension schemes varies between 0.6 per cent and 4.2 per cent. And CBFA (2007: 9) states that the normal contribution rate is 1 per cent to 1.5 per cent of wages which is actually rather low.

- The actual return rate for each individual account for defined contribution schemes and cash balance schemes administrated as insurance schemes in 2007 was 4.43 per cent (CBFA 2009: 9).

7. Benefits and Measures of the Collectively Negotiated Schemes

- Official retirement age in Belgium since 2009: 65 years for all employees. However, starting point of retirement can already be chosen at the age of 60, but not by people who are already profiting from early retirement (V.o.G. André Renard 2007: 34). In fact, retirement under the normal pension schemes before 65 seems to be very popular in Belgium (CBFA 2007: 9).
- The schemes can be set up as defined contribution schemes, defined benefit schemes or as cash balance schemes. According to Walthery (CBFA 2009: 8), most sector schemes were based on defined contribution arrangements by the end of 2007, two were defined benefit schemes and another two were cash balance schemes.
- Pension calculation: There is a general 80 per cent rule which says that the cumulated replacement rate of all pension benefits of an employee must not go beyond 80 per cent of the last gross salary in order to qualify for fiscal exemptions (Walthery 2004: 6).
  - In case of occupational defined benefit pensions the total retirement replacement rate is around 60 per cent and 75 per cent, including state pension benefits (OECD 2009: 169).
  - In case of defined contribution arrangements: Since the 2003 reform these schemes must provide a minimum guarantee which is 3.75 per cent for employee contributions and 3.25 per cent for employer contributions. This guarantee has to be achieved over the lifetime of the individual member (Pension Funds Online 2010).
- It is important to note that the standard benefit payout practice is a lump sum, even though annuities are possible (OECD 2009: 169).
- Practically all sector schemes guarantee a minimum pension (CBFA 2007: 9).
- Transferability rules provided by law. There are three different cases possible.
  - First possibility: if employee changes company within sector, there is of course no transfer of capital necessary.
  - Second possibility: if employee changes from company that is covered by a scheme to one that is not covered, the accumulated capital remains granted to the worker. In fact, the employee may even continue to pay contributions and benefit from fiscal incentives, if the employee has already been affiliated to the scheme for at least 42 months and if contributions are not higher than 1,500 EUR a year.

- Third possibility: if employee changes to company that is covered by another scheme, the employee may choose between transferring the capital or leaving it in the former fund (Walthery 2004: 7).

8. Coverage Rates of the Collectively Negotiated Schemes

- General rules: If the scheme is based on a collective agreement, it covers all the workforce of a given sector (ISSA 2008, Walthery 2004: 4). Furthermore, if a scheme is granted the social pension status all employees of the relevant sector are covered by this social pension scheme (OECD 2009: 170). However, an individual employer may opt out of the implementation of the sectoral pension scheme and implement its own scheme while still benefitting from the solidarity regime. There are the following conditions that must be fulfilled for this step: This opting out possibility must be included in the sectoral CLA and the company pension scheme must be regulated through another CLA (Walthery 2004: 4). By the end of 2007, 15 per cent of those employees who worked in a sector with a sectoral pension scheme were not covered by this sectoral scheme (CBFA 2009: 8).
- In 2006, 51 per cent of the active population was covered by an occupational pension scheme (company and sectoral pension) (OECD 2009: 169). It is an objective of the 2003 reform to increase participation to all types of complementary pension funds up to 75 per cent of private sectors workers by 2010 (Walthery 2004: 4).
- Concerning sectoral pension schemes, there were 27 sectors with one or several schemes in the end of 2007 covering 766,196 employees (CBFA 2009: 7). Almost half of all these employees work in the two biggest of these sectors: the metal building, mechanical and electrical sector, and the construction sector (CBFA 2009: 18). 81 per cent of the employees covered by such a scheme are blue collar workers, and 88 per cent are male (CBFA 2009: 7).
- 86 per cent of the active population which is covered by a sectoral scheme is also covered by a social pension plan (CBFA 2009: 10).

9. The Politics around the Collectively Negotiated Schemes

Linkages to Public Reform Policies

We have not found any evidence.

Linkages to Wage Agreements and Wage Policy (e.g. Wage Restraint, Tripartite Agreements) and Other Agreements

We have not found any evidence.

Actors’ Strategies and Conflicts among and between Them (State, Political Parties, Employers, Trade Unions)

- Strategy of trade unions FGTB/ABVV and CSC/ACV: During the process leading to the 2003 reform, they became more open towards the development of the second pillar. They do not fear anymore that the first pillar is weakened. Furthermore, they are convinced that the promotion of sectoral pension schemes is an important social correction of the dominating company pensions in the second pillar. However, the trade unions have made clear that the second pillar must always remain a complement to the first pillar (Fontana 2008: 9).
- Strategy of employer association FEB/VBO and the Belgian Association of Pension Funds: They rather favor the second pillar over the first pillar (Fontana 2008: 9).

10. Recent Developments and Other Interesting Information

We have not found any evidence.

11. Contacted Experts

No expert was contacted.

12. List of Abbreviations

- CBFA: *Commission bancaire, financière et des assurances* (Banking, Finance and Insurance Commission)
- CGSLB/ACLVB: *Centrale Générale des Syndicats Libéraux de Belgique/Algemene Centrale der Liberale Vakbonden van België* (General Confederation of Liberal Trade Unions of Belgium)
- CLA: collective labor agreement
- CSC/ACV: *Confédération des Syndicats Chrétiens/Algemeen Christelijk Vakverbond* (Confederation of Christian Trade Unions)

- EIRO: European Industrial Relations Observatory On-Line
- EUR: Euro
- FEB/VBO: *Fédération des Entreprises de Belgique/Verbond van Belgische Ondernemingen* (Federation of Enterprises in Belgium)
- FGTB/ABVV: *Fédération Générale du Travail de Belgique/Algemeen Belgisch Vakverbond* (Belgian General Federation of Labour)
- ISSA: International Social Security Association
- OECD: Organisation for Economic Co-operation and Development
- UCM: *Union des Classes Moyennes* (French-speaking Union of Self-Employed)
- UNIZO: *Unie van Zelfstandige Ondernemers* (Flemish Organization of the Self-Employed)

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