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NATIONAL REPORT FOR BELGIUM

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Economical and political overview

During 1988, economic growth reached over 4 per cent, surpassing the expectations. All the indicators showed positive trends, production, demand, inflation, unemployment and certainly investments, which grew by about 15%.

As Belgium is very dependent on the international economical development, the (late) effects of the fall of the oil prices and the US dollar in 1985 and 1986 still had an important positive influence. Also, the economical growth of the U.S. during 1988 affected the Belgian economy. Furthermore, Belgium was the first country to be influenced positively by the "kick of 1992".

Real disposable income grew by over 3% during 1988 and households were able to raise their consumption by 2.5% in real terms. At the same time they increased their savings rate. Furthermore, the soft climate caused an important growth of the building industry. The investment volume increased significantly and interest rates have risen in line with pressures abroad.

Despite the economical growth, the deficit target for the State budget has been left largely unchanged due to higher spending on debt interest, education, public works and pensions. In 1990 and beyond, the State budget is to follow a twin target : the deficit and real primary (i.e. non interest) spending may not increase from one year to the next. However, further budgetary stringency amounting to some 1% of GDP will be required if the general government debt-to-GDP ratio is to be stabilised in 1990.

After the longest political crisis Belgium ever experienced, a social-democratic government was established in May 1988. Rather than the social-economical austerity program, the regional plans and the constitutional reform took priority. This reform was approved in January 1989. Substantial responsibilities have been transferred to the three regions.

After small changes, the tax reform, planned by the previous liberal-democratic government, was voted. This reform reduced the rates and broadened the base.

A number of collective agreements were signed at the end of 1988. They show clear optimism and foresee quite substantial wage increases for 1989 and 1990.
The average hourly wages have increased by only 1% in 1988 and are expected to increase by 4% in 1989 and about 6% in 1990.
The average hourly wage for a blue collared worker amounted to about BEF 330 per hour at the end of 1988.

The unemployment rate fell by more than 10% to 9.3% at the end of 1988 and reduced to 9.2% in May 1989. This rate is expected to reduce further. Especially with Belgium being in the centre of Europe and 1992 being close, unemployment is not expected to be a problem anymore in the future.
Even proposals for decreasing the normal retirement age for males from age 65 to 60 are now being changed, because a shortage of specific technical and intelligent workers is already experienced in some regions.

Inflation was only 2% during 1988 and is expected to increase to 3% for 1989 and 3.6% for 1990.

The Belgian Franc was fairly stable in the last two years and is expected to remain stable in the short term. The exchange rates on 1st August 1989 were :

U.K. £ 1 = BEF 64.83
U.S. $ 1 = BEF 39.07
DM 1 = BEF 20.94

Financing pension plans

Since the date, 1st January 1986, that private pension funds are controlled, the only two possibilities in financing pensions in a legal tax effective way are group insurance and a private pension fund in the form of an A.S.B.L./V.Z.W., a non profit association.

Since then, other financing forms offered by insurance companies, as deposit administration or "Managed funds", are not allowed. Only two insurance companies received special approval to continue to operate and sell their deposit administration product. Insurance companies have to work with tariffs, which are almost totally defined by Royal Decree.

A new law expected

At this moment the Control Authorities are working at a law in which they would allow insurance companies a lot more freedom in their tariff structure and level. Unit linked policies, which are now forbidden, could then be offered. This law would also regulate Deposit Administration.

The new law will cause a total change for the insurance companies, who will have to work out their own tariffs. Up to this moment, nearly all insurance companies use the same tariffs. Currently, even the allocation of profit sharing (in which they have freedom) is identical for many insurance companies, and equal rates are used.

After the signature of this expected law, and in view of 1992, it is expected that insurance companies will not use all the same tariffs, as they do now. This will give the insurance industry a great deal of flexibility compared to the current situation. On the other hand, it is highly likely that one insurance company will still not be able to offer a different tariff to a big client than to the small client.

Fiscal aspects

Providing a pension benefit and hospitalisation cost reimbursement plans has been made less attractive.
At the end of 1988, a law was voted in which employer contributions towards a pension plan are subject to a social security contribution of 3.5% as from 1st January 1989.

As from 1st April 1989, insurance companies also have to pay 10% of all premiums for hospitalisation insurance to social security. This makes this kind of insurance more expensive and less attractive.

Furthermore, insurance companies are taxed on all profit sharing allocated to the insurance contracts as from 1st January 1989. The tax payable is 9.25% of the profit sharing allocations of which 50% is not a tax-deductible expense for the insurance company.

Private pension fund control

At the starting date of the control on private pension funds, the actuaries and other experts of the Control Authorities, clearly did not have a lot of experience with pension funds.

In the beginning, they concentrated on the control of the pension plan rules. Especially, the rules about the liquidation of the pension fund and the vested benefits received their attention. In general, the Control Authorities were and are very coöperative and their staff is trying to learn as fast as possible.

Up to this moment, the existing pension funds (about 300) only received a temporary approval and 10 new pension funds have received permanent approval.

Currently, the accounts of a pension fund are not regulated.
A draft accounting law has been written. However, fundamental dispute exists between the parties involved about the insertion or not of the minimum provisions on the balance sheet of the pension fund.

Social legislation

The austerity program has been finished and the special social security tax of 25% on the part of income exceeding BEF 3 200 000 has been abolished.
The total social security contributions are still very high and they are the main reason for the rather expensive labour costs in Belgium.

A new law is voted in which a further social security contribution of 0.12% of salaries will be required. These extra social security contributions will cover the cost involved for the replacement income in the first month or fortnight of maternity leave.

Currently, employers have to continue to pay the salary during the first month for salaried employees, during the first fortnight for hourly paid employees, in case of maternity leave. After the implementation of this new law employers will not have to continue the payment of the salary.
Therefore this law is favourable for all companies who have a lot of young female employees and means an increase in employment cost for those employers who employ more males than females.

1989 is the first year in which the Belgian social security is experiencing an excess. One of the options to use this excess is a decrease in social security contributions. Up to this moment, the social-democratic government does not want to do this and has not decided how the excess will be used.

Although the harmonization of the retirement ages has been promised since more than three years, little has been done to realise this. The Government has not been able to come to an agreement, although the measures taken in respect of the early retirement possibilities clearly show a trend towards the higher normal retirement age. Normal retirement ages are still 65 years for males and 60 for females. On the other hand, in order to decrease the unemployment rate, a number of measures have been taken to encourage employees to retire early.

Up to the end of 1989, males over age 60 can retire with a full unreduced pension, inclusive the pension based on the years of contributions between age 60 and age 65. This measure has been extended partially up to the end of 1990. The full unreduced pension has been replaced by the accrued unreduced pension, which makes retiring early a lot less attractive for the employees. The agreement of the employer is still necessary and in principle the employer is obliged to replace the early retiree by an unemployed person.

In the collective agreements, which regulate the early retirement possibilities per industry or per employer, the early retirement age is 58 up to 1990. In some industries this age is 57 or 55 and for companies which have difficulties the age is 50.

Following those collective agreements, the dismissed early retiree (prepensioner) receives the normal unemployment benefit and the employer pays a supplement depending on the (limited) salary of the employee.

The Government has decided to implement a fixed social security contribution per new prepensioner as from 1990. Furthermore, the Government will apply stronger rules to recognize a company as "a company which has difficulties".

The legislation covering the social aspects of private pension funds has still not been voted and is not expected soon.

A social security profile has been added in the Appendix.

Taxation

As said before, a tax reform has been implemented with effect on revenue as from 1st January 1989. The following are the highlights of the reform :

Pros	Cons
- Lower maximum tax rate of 55% plus communal tax expenses	- reduction in "no questions asked" professional
- Separate tax assessment for married couples	- professional expenses calculated after pension plan contributions
- Increased tax deduction for children	- reduction in real professional expenses for car and clothing
- Increased life assurance deduction	- reduction of tax deductible entertainment expenses
	- loss of corporate and dividend withholding tax credits

At this moment the government is also working on a tax reform for the tax on companies. It is proposing to decrease the tax rates slightly and, in the meantime, to abolish a number of deductions. The end result will almost surely be a tax increase for most companies, certainly for those companies paying a low tax rate because of the deductions.

Actuarial consulting issues

In view of 1992 and as internationally experienced, human resources are considered more and more important. This has as a consequence that human resources consultants in Belgium are growing rapidly.

This is also true for the actuarial and benefit consultants, certainly those who have built up some knowledge about the social security agreements between the different countries.
A number of multinationals are moving some of their activities to Belgium and relocation studies often involve actuaries in order to make sure that adequate benefits are provided, especially for expatriates.

The number of pension funds is growing, which has a positive effect on the growth of consulting actuaries offices. On the other hand of course, as in all service sectors, automation has an opposite impact. Actuaries get more and more involved in the financial aspects of the pension fund, e.g. asset allocation modelling starts to be one of their consulting activities. Performance measurement surveys are also conducted by actuaries.

The tax reform, including the increased taxation of contributions to benefit plans, has not affected visibly the compensation package. Although tax rates have diminished, the need to replace direct cash remuneration by perquisites and benefits is still high.

The insurance consulting is also growing slightly. This growth is expected to accelerate when the new legislation on tariffs for life and group insurance will be passed. On the other hand a number of small insurance companies have been absorbed and some more are expected to be taken over by bigger insurance companies or banks. They usually do not use consultants frequently.

Consulting actuaries are also looking to expand their activities in consulting the general insurance branch. The involvement of actuaries in general insurance in Belgium exists since about a dozen years in big insurance companies. Smaller insurance companies are only now realizing the advantage of using an actuary in the general insurance field.

In this field, the University of Leuven (K.U.Leuven) has performed substantial research, expecially with a view to applying the credibility theory in determining the premium levels of general insurance risks.

The Belgian Association of Consulting Actuaries has continued to organize meetings in which information is exchanged and common positions in relation to the control of pension funds and legislation about group insurance are determined.

The actuaries of the Control Authorities who are working on the new insurance legislation, are and will be consulting the Association for its opinions about the new legislation.

Appendix

SOCIAL SECURITY IN BELGIUM

OVERVIEW

The Belgian social security system (ONSS) is comprehensive in scope and coverage and involves substantial cost, about three-fourths of which is borne by the employer. Social security benefits are subject to periodic readjustments based on changes in the Consumer Price Index.

Under the Belgian social security system, separate but closely-related programs exist for wage earners, salaried employees, the self-employed, miners and seamen. The first two programs (outlined in the following pages) substantially cover all employees in private industry and commerce, with the exception of company directors who may be considered self-employed for social security purposes. Other separately financed and administered statutory systems cover national and local Government employees and railroad workers.

Workers' Compensation Benefits, other than for occupational disease, are not provided under the social security system. Employers are required to provide work injury benefits through insurance with a private carrier or a semi-official Government carrier. Minimum benefits are prescribed by law.

Foreigners gainfully employed in Belgium are covered under the appropriate social security system. Foreign nationals are eligible for benefits, provided a reciprocal agreement is in effect.

CONTRIBUTIONS

The Belgian social security system is financed primarily through joint contributions of employees and employers. Substantial Government subsidies from general taxation are also paid into the system as necessary.

There is no earnings ceiling for the calculation of social security contributions (except for Workers' Compensation).
Pensioners are required to make contributions for medical coverage. However, these contributions are not required for retired nonresident EEC nationals.

A further source of income, are the Social Security contributions required on employer's contributions towards a pension plan of 3.5 % and a 10 % contribution on the premiums paid for hospitalisation cost insurance paid by the insurer.

The contribution rate on total earnings as of January 1, 1989 amount to 12.07% for employees and 36.52% for the employer.

Disability and prepension benefits are subject to social security contributions of 3.5 % (2.55 % for Old Age and Survivors' Pensions). However, this requirement does not apply if the contribution causes the monthly pension to fall below BEF 30,265 for pensioners with no dependents, or BEF 35,869 for those with dependents.

BENEFITS

The earnings ceiling for determining retirement and survivors' pensions is determined annually and applies to both wage earners and salaried employees. The annual benefit ceiling was BEF 1,104,123 in 1987, BEF 1,121,263 in 1988, and is BEF 1,134,299 in 1989.

The benefit ceiling applicable for Cash Sickness, Maternity and Disability benefits is BEF 3,033 per day (based on a six-day week).

Old Age Pension

60 % of "adjusted career average earnings" is payable for a single person or a married person whose spouse is collecting a pension in his or her own right. For a married person with a dependent spouse, 75 % is payable. Benefits are reduced proportionately for service below 45 years for males, 40 years for females.

"Adjusted career average earnings" are defined as 1/45th (1/40th for females) of the total "adjusted earnings" over the career. The "adjusted earnings" are the real earnings during the year, subject to applicable ceilings, revalued by a coefficient designed to reflect :
(1) changes in the cost of living as determined by the Ministry of Social Welfare
and (2) improvements in the standard of living as fixed annually by Royal Decree (zero for earnings since 1975).

The minimum annual pension payable since January 1, 1989 is BEF 260,341 for a single person with a full career. The maximum annual pension payable in 1989 is BEF 522,098 for a married man and BEF 555,191 for a married woman.

Survivors' Pensions

A widow or widower must be at least age 45, or have a dependent child. The survivor's pension is equal to the lesser of :
(1) 80 % of the accrued married pension, i.e., 80 % of 75 % of the averaged of the "adjusted earnings" during the years worked;
and (2) 80 % of the projected married pension assuming a full career; and in the missing years, earnings of BEF 363,767 per year.
The result is multiplied by the number of years actually worked and divided by the age minus 20.

The survivors' pension terminates at remarriage, and a final payment equal to one year's pension is paid in 12 instalments.

Provisions for orphans are made through the Family Allowance system.

Long-Term Disability Benefits

The disability pension amounts to 65 % of covered earnings (maximum BEF 1,820 since November 1, 1988) if the employee has dependents and earns the only income in the family ; 45 %, if the employee has no dependents and it is his only income ; 40 %, if the employee has other income.

Pensions are payable until normal retirement age when the Old Age Pension becomes payable and are adjusted for inflation.

Cash Sickness Benefits

After a waiting period of 30 days, during which the employer pays full salary, the employee receives 60 % of covered salary (up to a daily earnings ceiling of BEF 3,033), payable six days a week for one year (two additional years under certain circumstances).

Medical Care Benefits

75 % of scheduled fees for medical expenses--general and specialist care, physical therapy, nursing and dental care are reimbursed.

Prescribed pharmaceutical products are divided into five categories of reimbursement : (1) 100 % reimbursement, (2) patient pays 25 % of the cost but no more than BEF 300 (15 % and BEF 200 for widows, pensioners, orphans and the disabled), (3) patient pays 50 % of the cost but no more than BEF 500 (50 % and BEF 300 for widows, etc.), (4) patient pays 60 %, (5) no reimbursement.

In addition, insured persons are required to pay a deductible of BEF 25 per day of hospitalisation for all reimbursed prescription drugs. 100 % reimbursement of hospitalisation costs for common room accommodations, however, the insured must contribute BEF 189 per day (BEF 40 if patient is in hospital more than 90 days) towards the cost.

Lower charges apply to widows, pensioners, orphans, the disabled and dependents.

Family allowances

The ordinary allowances amount to :

1st child	BEF 2,220
2nd child	BEF 4,108
3rd and each additional child	BEF 6,133

In addition supplements according to age are paid.

The orphan's allowance payable in lieu of the ordinary allowance amounts to BEF 8,528.

A lump-sum birth grant of BEF 30,074 for the first child and BEF 20,774 for each additional child is paid.

Unemployment insurance

The unemployment benefit is based on earnings up to BEF 47,684 per month (BEF 1,834 per day based on a 26-day month).

Beneficiaries with dependents receive 60 % of covered earnings, payable until reemployment.

Single beneficiaries without dependents receive 60 % of covered earnings up to a maximum daily benefit of BEF 1,101 for the first year of unemployment. For the second and subsequent years, the benefit is reduced to 40 % of covered pay, subject to a maximum daily benefit of BEF 734.