

# **Flexibility in the reform proposal of the Belgian Commission on Pension Reform 2020-2040**

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## Structure of the presentation

- The Belgian Commission on Pension Reform 2020-2040: 'defined ambition'
- Fair flexibility in pension systems
- Actuarial corrections and the social stratification of longevity



# UN CONTRAT SOCIAL PERFORMANT ET FIABLE

Commission de Réforme des Pensions 2020-2040

**Propositions pour une réforme  
structurelle des régimes de pension**

**[www.pension2040.belgique.be](http://www.pension2040.belgique.be)**

# Intergenerational risk-sharing and 'defined ambition'

- Pensions = managing uncertainty
  - by integrating adjustment mechanisms in the pension system
  - EU Commission: by indexing parameters of pension systems to longevity (e.g. career requirements & retirement age)
- 'Conditional certainty' for the individual citizen
  - Stabilize  $\frac{\textit{average net pension income}}{\textit{average net income active population}}$  (Musgrave Rule)
  - Conditional on macro demographic & economic context
  - Conditional on individual choice

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Two objectives:

- Target replacement rate for ‘standard worker’ with ‘reference career’  
  
& stabilisation of income ratio pensioners/employed
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- ⇒ [Adjustments w.r.t. funding]

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*Choice: flexibility*

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## Flexible retirement; partial retirement

- Statutory pension age, a possible scenario studied by CPR

	2016		2060	
	Age	Career	Age	Career
Statutory pension age	65	0	67	0
Early retirement	60	42	62	44
	62	40		
	61	41		

- The need for additional flexibility: partial pensions

## **Flexible retirement; partial retirement: questions**

- Partial retirement conditioned by previous & current employment? (or, 'decoupling'?)
- Limits on the combination of pension income and earnings?
- Accumulation of additional pension rights when combining pension income and employment?
- Which actuarial corrections?

## Assessment of existing partial retirement schemes

- Existing schemes were nested in labour market regulation and employment contracts; they originated in reforms of the first generations of early exit schemes ('preretirement') & moves towards 'transitional labour markets'
- Eurofound, 2016: *Extending working lives through flexible retirement schemes: Partial Retirement*
- "*Partial retirement*" = schemes that facilitate reduced working hours by providing a *partial pension* or a (non-pension) benefit close to the statutory pension age

# Assessment of partial retirement: Eurofound (1)

- “Over half of the EU Member States and Norway have national or sector-level partial retirement schemes. The schemes vary in rationale, coverage and design. Partial retirement can enable and motivate people to continue working up to the statutory pension age and beyond. Almost two-thirds of EU citizens say it appeals more to them to combine a part-time job and partial pension than to fully retire. However, no scheme was identified that unambiguously extended working lives for all participants. Partial retirement may have extended working lives for specific groups, especially people with health problems, disabilities, care responsibilities and physically or mentally demanding jobs. On the aggregate level, though, the reduction in hours facilitated by partial retirement has frequently outweighed the increase in hours arising from lengthening the working lives of some participants.”
- “Even when partial retirement does not extend working lives, it may have been negotiated as an alternative to early retirement schemes that would have reduced working lives even further.”
- “... policymakers may also consider the impact on quality of life and society: flexibility allows closer alignment of the retirement path with workers’ preferences, and can facilitate volunteering activities and care commitments.”

## Assessment of partial retirement: Eurofound (2)

- “Low-paid workers may more often need a reduction of working hours to extend their working lives but are often unable to afford it even if wage loss is partly compensated.”
- “Several of the schemes were used more by higher socioeconomic groups, which raises concerns about fairness, particularly if schemes are publicly funded.”
- “It may be unfair if schemes are not accessible to older people who already work reduced hours (many of whom are women) or to unemployed or inactive people who start working part time.”
- “Employers may use involuntary partial retirement to restructure their workforce, but partial retirement schemes have also sometimes prevented unemployment.”

**“Decoupled systems”**: people can draw a partial pension from a certain age regardless of the number of hours they work

e.g. Czech Republic, Finland, Norway, Poland, Sweden, Dutch public sector scheme

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These questions are interrelated:

if no limits on combination of incomes & accumulation of rights

=> full actuarial corrections are needed

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## Career-sensitive actuarial corrections (1)

- Longevity is socially stratified
- This stratification correlates with education, i.e. with the age of entry into the labour market
- We define a non-uniform 'normal pension age':

the age of entry into the labour market

+

the 'reference career'

## Career-sensitive actuarial corrections (2)

- We define a non-uniform ‘normal pension age’:
  - the age of entry into the labour market
  - +
  - the ‘reference career’
- If retirement before the ‘normal pension age’: negative correction is applied
- If retirement after the ‘normal pension age’: positive correction is applied

## Career-sensitive actuarial corrections (3)

$N$  : reference career (identical for all, but evolving over time)

$x(0,i)$  : age of entry into the labour market for individual  $i$

$x(r,i)$  : 'normal age of retirement' for individual  $i$

$$x(r,i) = x(0,i) + N$$

$$\text{coefficient conversion} = \frac{e(x(r,i))}{e(x)} = \frac{e(x(0,i) + N)}{e(x)}$$

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## Sustainable reform...

- Requires large consensus
- Based on sense of common purpose: defined ambition

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Report of June 2014

Complementary report on flexibility of April 2015