

2004-12-13

PRESS RELEASE

The determinants of third pillar pension savings

(Article published in the Economic Review, December 2007)

The ageing of the baby boom generations will have significant implications for the sustainability of the statutory pension system (the first pillar), health care spending and taxation. That perspective is generating lively debate over the reforms which are needed in order to face that challenge. Individual pension saving – the third pillar – is one of the instruments that can remedy some of the shortcomings of the statutory system. The Belgian government realised that and introduced tax incentives twenty years ago to encourage this form of saving. This anniversary is a suitable occasion for taking stock of the progress of third pillar payments in Belgium and examining its macroeconomic and microeconomic determinants.

The statistics obtained from the Belgian financial accounts relate to third pillar savings in the broad sense, extending beyond the special pension savings and long-term savings products attracting tax concessions. Furthermore, they do not lend themselves to a detailed analysis based on individual household characteristics. It is therefore useful for two reasons to use the tax return data instead. Since the savings built up under the third pillar carry entitlement to a tax reduction, provided they are declared, the tax returns constitute a statistical source which can be used for both macroeconomic and microeconomic analysis of the third pillar in the strict sense.

The macroeconomic analysis shows that there has been a substantial increase in third pillar payments in the past fifteen years. The increased rate of participation has played a decisive role in this development, which was encouraged by awareness that the statutory pension is inadequate. It is also evident that new participants have a lower average income than the long-standing participants. These developments point to a tendency towards democratisation of the third pension pillar.

However, the microeconomic analysis qualifies that picture. True, various categories less able to rely on the first two pension pillars are quite justifiably more inclined to participate. This applies particularly to the self-employed and persons taking early retirement. There are some other sub-categories which also display a high propensity to participate, although their financial position is already sound, even after retirement: home owners on high incomes with group insurance cover are one example. In the case of these households, assured of a supplementary pension under the second pillar, the third pillar can nonetheless help to limit the loss of purchasing power after retirement.

Conversely, the majority of households still have no access to the second pillar. For that category, the third pillar is an advantageous way of topping up their statutory pension. In certain cases, it is actually the only way of securing a decent income after retirement age. However, the results of the microeconomic analysis show that, in contrast to the self-employed and persons taking early retirement, certain categories who will also have to manage on limited resources after retirement are still nevertheless under-represented among third pillar participants: people in rented housing, the unemployed and persons on low incomes.

For some households, the lack of money makes any form of savings impossible: those households need to be able to rely on a sound first pension pillar. In some cases, vulnerable households which are nevertheless able to save may be insufficiently informed, as the growing complexity of the financial products available for the third pillar is not improving their accessibility. It is therefore hardly surprising that a number of reports draw attention to the need for financial education for savers. That should enable them to gain a better understanding of the supplementary pension products, particularly investments which offer no guaranteed return and place the risk with the investors, as in the case of pension savings funds. Furthermore, when savers have reached retirement age they should be given assistance to ensure optimum management of the funds obtained when the contracts mature.