

BELGIUM

Belgium's population has aged rapidly over the past 50 years. The figures at right show the percentage of Belgium's total population by five year age groups, separately for males and females. In 1950, Belgium's population distribution essentially formed a classic pyramid shape, where each successively younger age cohort represents a larger portion of the total population. However, the drop in fertility rates during the Depression and WWII created a slight indentation for several younger cohorts.

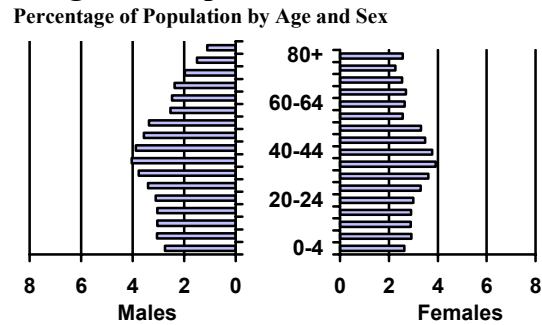
Between 1950 and 2000, Belgium's fertility rate fell from 2.33 to 1.48, and life expectancy rose 11 and 12 years for males and females, respectively. This caused the population structure to shift to a pillar shape, where the total population is equally distributed among the age cohorts. The bulge in the middle aged cohorts represents the surge in fertility rates following WWII that produced the baby boom generation.

Looking to the future, the anticipated mix of low birth rates with continued improvements in life expectancy will result in a much older society, where the population structure more closely depicts an inverted pyramid. By 2030, Belgium will have an average age of nearly 46 years old compared to today's average age of 40.

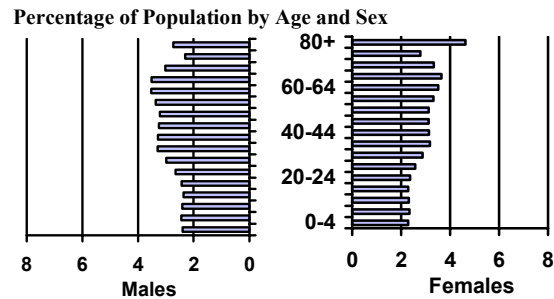
Belgium's Population Structure in 1950



Belgium's Population Structure in 2000



Belgium's Population Structure in 2030



Source: UN Population Division, World Population Prospects (The 2000 Revision).

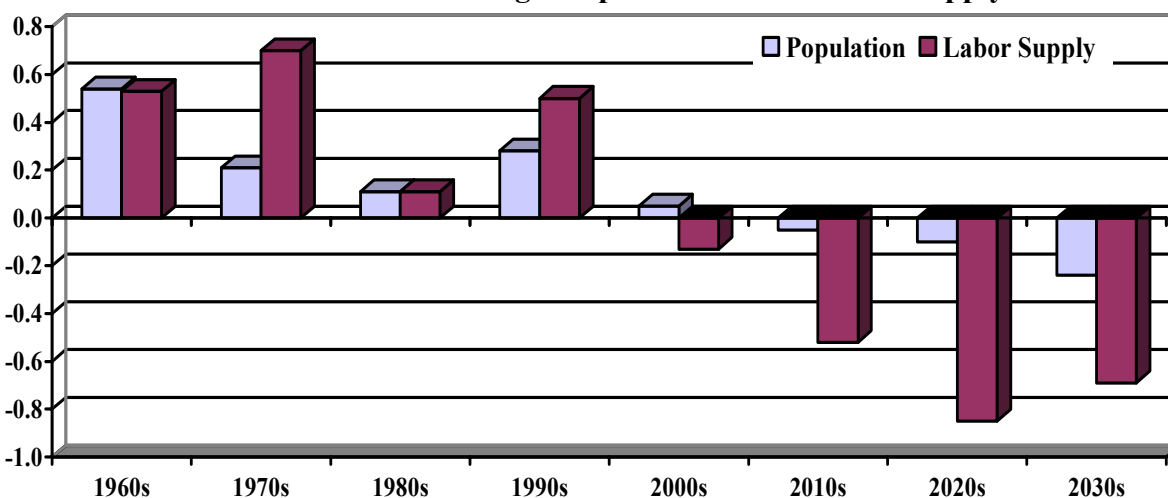
Demographic History

	1950	1960	1970	1980	1990	2000
Life Expectancy at Birth						
Males	65.00	67.85	68.24	70.44	73.28	75.65
Females	70.15	73.85	74.69	77.21	80.02	81.88
Life Expectancy at 65						
Males	-	77.44	77.10	78.00	80.09	80.97
Females	-	79.96	80.30	81.90	84.04	85.33
Fertility Rate	2.33	2.66	1.93	1.59	1.61	1.48
Net Migration Rate	0.38	0.90	0.76	-0.35	0.86	0.63

A critical component of a society's ability to expand its production of goods and services is the growth of its labor force. As Belgium's population aged over the past half-century, its labor force has undergone changes as well. Soon after the end of World War II, many industrialized societies, including Belgium, experienced a significant spike in birth rates that produced the generation known as the baby boom. Labor supply growth increased dramatically during the 1960's and 1970's as the baby boom generation, including an unprecedented number of its female members, entered the workforce. Low fertility rates over the last few decades have caused population growth to slow considerably. This created a temporary boon where a high percentage of the population was economically active – often referred to as a “demographic dividend”. Between the 1970 and 2000, total dependency rates in Belgium fell by about 14 percent, while youth dependency fell by about 30 percent.

As the baby boom generation moves ever-closer to their retirement years over the current decade, labor supply growth in Belgium is anticipated to grow more slowly than the population. The combination of prolonged low fertility, improving life expectancy and a greater proportion of the population in age groups that have low propensities to work, have the combined effect of diminishing labor supply growth. In fact, labor supply growth is anticipated to shrink over the current decade, reaching nearly a one percent decline per annum over the 2020s. As a result, Belgium will face a much greater percentage of its population being inactive, reflected by nearly a 33 percent increase in the total dependency ratio and over a 69 percent rise in the old age dependency rate between 2000 and 2030.

Annual Percent Change: Population versus Labor Supply



Source: World Bank, World Development Indicators database

Dependency Ratios

	1970	2000	2030	% change 1970-2000	% change 2000-2030
Youth- (Inactive pop 0-19)/ LF 15+	0.75	0.52	0.49	-30.27	-6.53
Aged- (Inactive pop 55+)/ LF 15+	0.52	0.56	0.95	8.87	69.39
Total- (Inactive pop 0-19 and 55+)/ LF 15+	1.27	1.09	1.44	-14.38	32.73

Source: Sources: International Labor Office, LABORSTA database, current through 2001; UN, Population Division, World Population Prospect (The 2000 Revision); OECD, CDE database on labor statistics, current though 2002

Old Age Pension System

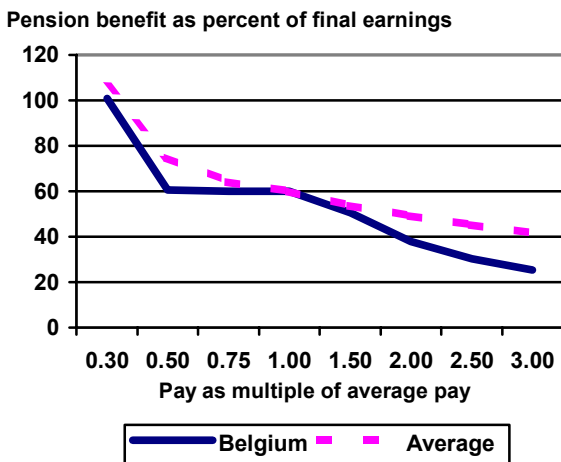
The old age pension system in Belgium is a single earnings-based tier with a means-tested allowance. The full pension benefit available under the earnings-based tier is 60 percent of adjusted career average earnings for a single retiree. To collect the full benefit, a retiree must have contributed into the system for 45 years for men and 42 for women. The benefit is proportionately reduced for shorter working careers. As of 2002, the normal retirement age was 65 for men and 62 for women. The differences between men and women in the contribution period and normal retirement age will be eliminated by 2009. An early retirement benefit is available without any actuarial reduction at age 60 with a minimum employment period of 30 in 2002, which will rise to 35 by 2005. In the calculation of adjusted career average earnings, all earnings are revalued in line with increases in the consumer price index and by an additional factor to reflect the increase in standards of living. All earnings up to the social security ceiling of €38,678.50 are taken into account.

Belgium's pension scheme is subject to a maximum and a minimum pension payout. As of 2002, there was a maximum pension of €17,049.40 for a single male and €17,649.36 for a single female, while the minimum yearly benefit was €9,253.11 for a single person. Pensions in payment are adjusted in-line with increases in the cost-of-living index, which has been the so-called health index since January 1, 1994. Finally, there is a means-tested supplement that insures a minimum benefit of €7,022.7 per year for a retiree living alone or €4,681.8 for a retiree cohabitating with another. To finance the program employers contribute 8.86 percent of payroll, while employees put in 7.5 percent.

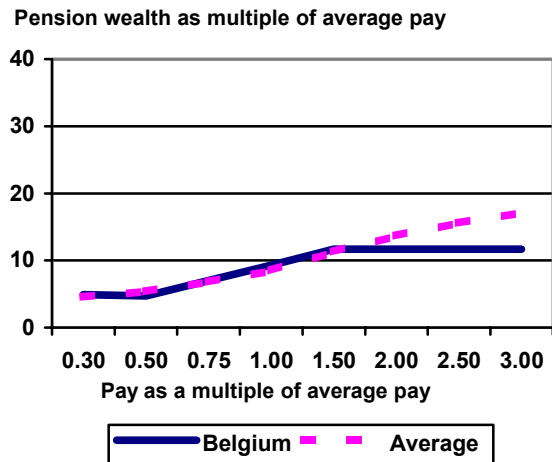
Belgium's old-age pension program is a rather progressive scheme that provides a fair degree income insurance for low career earners, while providing less income support in retirement to high career earners. As indicated by the figures below, gross replacement rates fall roughly in-line with the average across the OECD for most earnings groups, although rates are a bit lower for high wage earners. As a result, upper income groups are unable to accumulate as much pension wealth from the public pension program as can be generated in other OECD nations, while average and low wage earners are roughly analogous.

Source: Social Security Administration, Social Security Programs Throughout the World (2002). Watson Wyatt Data Services, Benefits Report: Western Europe, USA & Canada (2002).

Gross Replacement Rates
Belgium v OECD Average



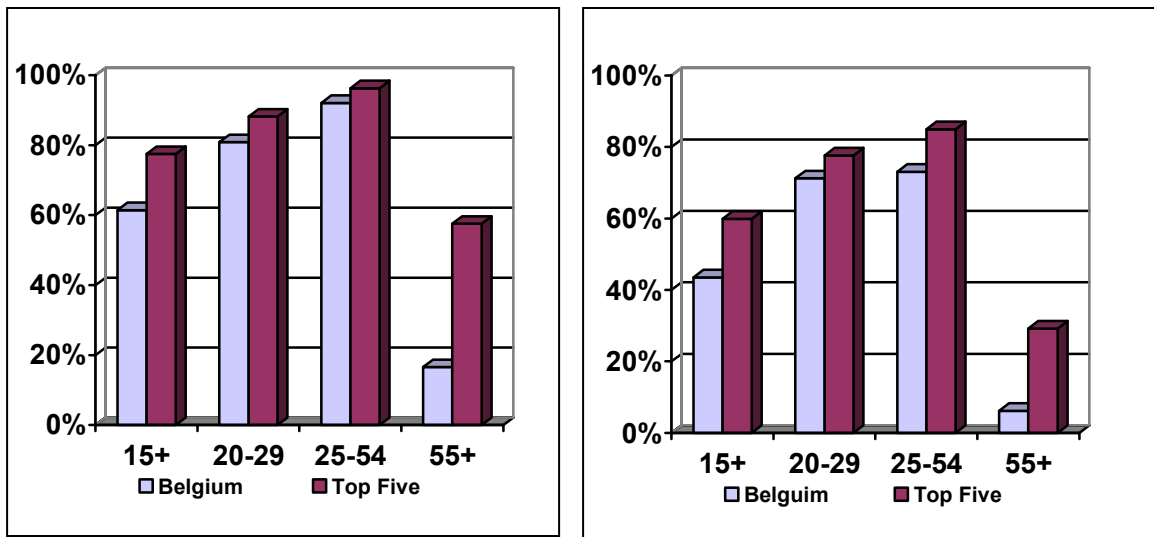
Gross Pension Wealth
Belgium v OECD Average



Source: Whitehouse, Edward (2003)

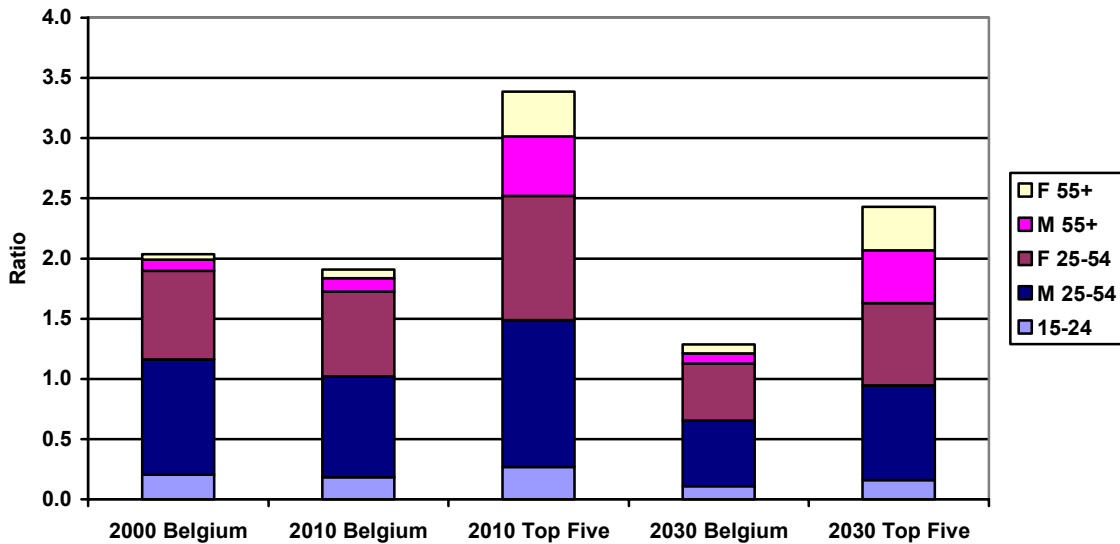
Notes: Pension wealth estimates are a multiple of economy-wide average.

Labor Force Participation Rates: Belgium v Top Five OECD Country Composite



Source: OECD, Corporate Data Environment database on labor statistics, current though 2002

Ratio of Workers in Belgium 15+ to Retirees 60+ in 2000, 2010 and 2030 and Under Alternative Assumptions of Old Age Participation Rates for the Top Five OECD Countries



Source: UN Population Division, World Population Prospects (The 2000 Revision); OECD, Corporate Data Environment database current though 2002

Much of the burden caused by demographic aging is due to rising dependency rates. In the coming decades, many industrialized nations will need to figure out how to support a growing inactive population with fewer workers. A remedy to this problem is to adopt programs that promote greater workforce participation at all ages. Some countries excel at achieving high workforce participation across various age and gender groups. The figures above show how Belgium's labor force participation stacks up next to the average of the Top-five OECD nations. Activity rates in Belgium fall short of rates in the Top-five countries for every age and gender group. Most noticeably, older individuals participate in the labor force to a much lesser extent than those in the Top-five countries. If Belgium adopts measures to increase labor force participation of older age groups (55+) to rates similar to the Top-five OECD nations, it could significantly reduce its old age dependency rates. As shown in the figure above, if Belgium maintains its current activity rates between 2000 and 2030, the ratio of workers to retirees is expected to fall from nearly 2.0 to 1.3. However, by adopting policies to entice workers to defer their retirement at rates similar to those achieved by the Top-five OECD nations, Belgium could reduce its dependency burden by raising its activity rate to 2.4 workers per retiree in 2030 - a rate higher than it maintains today.