BEL-Ageing

Ageing, pension systems, fiscal sustainability and growth

DURATION
1/12/2013 - 28/02/2018

BUDGET
798.246 €

PROJECT DESCRIPTION

All advanced economies are experiencing population ageing - characterized by a low fertility rate and a steady increase in life expectancy – and its consequences in terms of public finances and potential growth. Some countries are more affected than others. Belgium is one of them. According to the projections of the European commission's Ageing Report (2012), public pension spending will increase from 11% to 16% of GDP between 2010 and 2060, the fourth strongest projected rise after Luxembourg, Cyprus and Slovenia. As its public debt and tax-revenue-to-GDP ratio are already very high, Belgium has no much fiscal leeway to absorb the expected increase in public pension spending without jeopardizing its fiscal sustainability, economic growth and welfare. Therefore, like many other advanced countries, Belgium will have to introduce pension reforms.

All existing pension reforms already introduced in advanced economies consist in rebalancing the imputation of the cost of ageing from the active population to the retirees: increase in pensionable age, tighter conditions for early retirement and higher incentives to work after official retirement age. In Belgium, the labour market may be an additional area where reforms could have a positive effect on the sustainability of the pension system. According to OECD (2011), employment rates of older and low-skilled workers in Belgium are among the lowest in the OECD countries. Reducing this level of structural unemployment could substantially slow down the expected increase in the old-age dependency ratio.

The authors of the present research project, called *Bel-Ageing*, consider that the reforms likely to improve the sustainability of pension systems are known. The issue is about the fine-tuning of these reforms in order not to kill productivity growth, not to slash the welfare of the elderly and not to increase inequalities. In other words, the issue is about finding the optimal balance between efficiency, fairness and political feasibility of the reforms.

The main objective of this project is to provide various tools to assess quantitatively the sustainability of the Belgian pension system and to test actual and potential pension and labour market reforms. In order to do so, this project brings together the expertise of microeconomists and macroeconomists from the Center of European Policy Studies (Cinzia Alcidi, Daniel Gros and Mikkel Barslund), the Katholieke Universiteit Leuven (André Decoster), the Universiteit Gent (Freddy Heylen) and the Université de Liège (Lionel Artige, Sergio Perelman and Pierre Pestieau). The motivation for building this network is to assemble expertise in microsimulation and overlapping-generations models and combine these two approaches to improve the quantitative assessment of the sustainability of the Belgian pension system.

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