

# THE IMPACT OF INCREASED LABOUR MARKET FLEXIBILITY ON SOCIAL SECURITY

*A study of the social protection of flexible employees in pension provisions*

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## Introduction

Belgian social security has its roots in a period when male, full-time, uninterrupted standard careers were the dominant feature. In recent decades, however, increased flexibility on the labour market has resulted in an increase in “atypical” career patterns (part-time work, career breaks, fixed-term contracts, etc.). Policymakers are therefore facing a significant challenge in bringing social protection mechanisms into line with increased labour market flexibility and the increase in atypical or flexible career patterns.

In this study, this challenge is examined in the light of the pension protection afforded to flexible employees. For various reasons, pension protection forms the ideal testing ground for the implications of increased labour market flexibility for social security. Belgian pension protection thus has a pronounced labour-related character: access to and membership of the various pension systems is to a large extent dependent on a person’s work career. In addition, pensions also offer the possibility of examining the role played by the various social security pillars in protecting flexible employees. On the Belgian pension landscape, what are known as first pillar pensions have after all declined in importance in favour of second and third pillar provisions.

This study examines the extent to which flexible employees are protected (membership or not/extent of cover) by the various pension systems (first, second and third pillars) and the remaining gaps, if any, in the social protection provided for these employees.

Specifically, the following study questions are posed:

(1) How can current social security provide effective protection within an increasingly flexible labour market? We examine in particular whether and how the various pension pillars can be harmonised, bearing in mind the group of employees with a flexible and often insecure work status;

(2) What measures are in place that influence the participation of flexible employees in Belgian pension systems? As we take stock of them, we want to examine not only the

impact of the working career on access to a pension system, but also indicate what gaps and forms of (possibly hidden) discrimination exist in access to the various pension systems. We can thus test to what extent the present structure of social security has adapted to new forms of labour;

(3) What is the role of social consultation in the development of additional pension protection for flexible employees? To what extent does current social consultation take account of the increasing importance of flexible labour?

### **1. Clarification of basic concepts, method and operationalisation**

In this study some concepts are frequently used. The most important relate to the various forms of flexibility and to the different ways in which a pension can be provided.

The distinction between the three pension pillars corresponds to the institution that is responsible for managing the redistributing financial flows. The *first pillar* covers the arrangements which public institutions make to control the financial flows. Here, we include employee pensions, civil service pensions, self-employed pensions and the guaranteed income for the elderly.

The second and third pillars include the social security schemes which private institutions use to control the redistributing financial flows. The *second pillar* can be distinguished from the third pillar by its labour market-related nature. The second pillar is therefore organised by a company or branch of industry, as well as in a professional category or professional group. The second pillar includes the sector pension, the collective company pension, the individual company pension, the free additional pension for the self-employed, the additional pension for certain liberal professions and the additional pension for self-employed managers. Membership of the *third pillar* is open to anyone, regardless of professional status. The third pillar pensions include individual life assurance and pension savings.

As far as flexibility is concerned, a distinction is made between temporal, contractual and functional flexibility. In *temporal flexibility*, the volume of labour of a company's own staff is adjusted. This means that an adjustment is made to the time when the work is carried out or the duration of the work performed. Forms of temporal flexibility involving a change to the time of the labour include shift work, variable working hours and overtime. We can assume that these forms of flexibility will have little or no impact on pension build-up. The total duration of work performed does after all remain the same as that of an "ordinary" employee. Typical manifestations of temporal flexibility which do involve a variation in the duration of work performed include part-time work, career breaks/time credit and temporary unemployment. These latter forms of temporal flexibility can exert an influence on the pension build-up.

*Contractual flexibility* arises when atypical employment contracts are signed. Such atypical contracts can be found in fixed-term contracts, employment agency work, replacement contracts, contracts for clearly defined work, traineeships, PWA (Local Employment Agency), student jobs, occasional work, home-working, the provision of personnel and secondment. The contract type is not relevant in building up the first pillar pension but it is relevant for the second pillar pension. All these forms of contractually flexible labour can therefore influence the build-up of the second pillar pension.

In *functional flexibility*, the tasks and/or functions of employees vary within the company or employees move between companies and sectors. These shifts can be both horizontal and vertical. In terms of the pension build-up, this form of flexibility is relevant within the second pension pillar.

The study consists of two major study sections, a content analysis of collective labour agreements and an empirical analysis of PSBH data.

In the empirical section of the study, use was made of the Panel Study of Belgian Households because this is currently the only Belgian dataset in which information about labour situation can be linked to information about pension protection. This dataset was created by the "Family Demographics Panel Support Centre", affiliated to the Universities of Antwerp and Liège. The support centre gathered longitudinal data between 1992 and 2002 concerning various aspects of the living conditions of the Belgian population. Starting in 1992, 4,439 households were interviewed, together representing over 11,000 family members. These people have since been re-interviewed annually. Correction has been applied for the loss of respondents.

The PSBH enables us to distinguish the type of contract an employee has (contractual flexibility) and whether the employee works part-time (temporal flexibility). The operationalisation of functional flexibility is only approximately possible in the PSBH and should be done longitudinally: it is defined as any transition by an individual employee between job levels, company (sizes) or sectors.

Information about the level of the pension is available from the PSBH for the first and third pillars, but not for the second. The size of the first pillar pension can be linked to the former career of the respondents, thanks to a retrospective survey. Information about the third pillar pension is available regarding the size of the contributions which respondents paid in this respect. The size of both first and third pillar pensions was introduced as a dependent variable into a number of multivariate linear regression models.

Information about membership of a second and third pillar pension plan is also available in the PSBH (membership of a first pillar pension plan is not relevant since it is automatic). Note that the survey of the second pillar pension in the PSBH concerns almost exclusively second pillar pensions at *company* level. Since this concerns a

dichotomous dependent variable, a logistic regression is the appropriate analysis technique. Given that information about membership of the second pillar pension plan is longitudinally available, even more sophisticated analyses are possible in this case. More specifically, the panel structure allows the career of employees to be approached in a more dynamic way and the effects of transitions between job levels, company sizes and sectors (i.e. functional flexibility) to be calculated on an individual basis. In this context, two different techniques are chosen. Firstly, a fixed-effects logit model is estimated. The advantages of this model are the ability to control for unobserved heterogeneity and the lower sensitivity to the bias from attrition and, for certain model assumptions then, a random-effects model. The model is not, however, very efficient and requires sufficient observations. For this reason, a logit model with robust standard errors is then estimated via generalised estimating equations (GEE). This involves controlling for the dependency which can arise between the observations as a result of the panel structure of the data. Using this model, we test whether any evolution has taken place between 1996 and 2002 towards improved protection of flexible employees.

In the second study section, we look in more depth at the link between flexible labour and second pillar pensions within the framework of social consultation at *sector level*. The study conducts cross-sectional analysis of all national or interprofessional and all sectoral collective labour agreements (CAOs) in force in 2004. The company CAOs are not included because, so far, no database is available in which CAOs can be consulted. A study of the content of company CAOs would therefore have to be very different in structure. Not one explicit clause was found in the interprofessional CAOs concerning the build-up of pension rights, let alone concerning additional pensions. We can conclude from this that any pension-related provisions are in any event passed down to a lower, less uniform level.

In order to bring together all the relevant CAOs at sector level, we used the Juridisk and the FOD Employment, Labour and Social Consultation databases. Using the possibilities offered by the two data sources above, a collection of all sectoral CAOs was created relating to additional pensions in force in 2004. This collection contained 174 sectoral CAOs, all of which were included in a content analysis.

## **2. Main study findings**

In Diagram 1, we give a summary of the most important observations. More specifically, the table shows the influence of a flexible labour pattern on membership of the various pension pillars and on the size of the pensions in the respective pension pillars. A distinction is also made between the most important forms of flexibility: temporal flexibility (part-time work, career breaks/time credit), contractual flexibility and functional flexibility. The following are examined for each of these forms:

- 1) the basis for membership of the respective pension pillars;

2) where membership exists, the influence of the flexible employment contract on the size of the pension build-up.

The diagram allows us to formulate some recommendations for further study.

In terms of the **first**, statutory **pension pillar**, membership does not pose any problems but the size of the pension build-up is problematic. Like non-flexible employees, flexible employees are after all automatically members of the statutory pension system. However, the various forms of flexibility do influence the size of the pension build-up. For *temporally* flexible labour, a distinction must be made here between part-time working and career breaks. Career breaks seem to be well-protected: the size of the pension build-up remains unaffected, thanks to the system of equal treatment of days. Although career breaks can possibly have an indirect influence on the size of the statutory pension (by missing some career promotions), there is therefore no direct influence on the size of the pension to be paid out. However, part-time working does have an important effect on the size of the pension build-up. The system of the equal treatment of days is only applied to a very limited extent to part-time working. This is confirmed by our empirical analysis: the average pension of flexible employees is considerably lower than the average pension of non-flexible employees. Finally, *functional* and *contractual* flexibility do not pose a problem in the first pillar.

Unlike the first pillar, problems can arise with membership and with the size of the pension build-up in the **second pillar**.

As far as the *membership* of *temporally* flexible employees is concerned, the legislative framework (ban on discrimination) states that no distinction may be made between part-time employees and full-time employees.<sup>1</sup> This applies at both company and sector levels.

However, *contractually* flexible employees can be excluded from participation in a second pillar pension plan. Our empirical analysis does indeed show that employees with a fixed-term contract on average participate less frequently in collective company pension schemes than employees with a permanent contract. The content analysis of the CAOs demonstrates that such inequalities also occur at sector level. Finally, the impact of functional flexibility can only be examined to a very limited extent at company level. At sector level, the exclusion of functionally flexible employees seems to occur frequently. After all, membership of a pension scheme often depends on a certain period of

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<sup>1</sup> For employees taking a career break, the issue of membership does not apply: employees taking a career break are after all already members (or not) of a collective company pension plan. Taking a career break will have no influence on membership (or lack thereof).

Diagram 1: Pension protection of flexible employees, brief summary

|               |            | Temporal flexibility                    |   | Contractual flexibility   | Functional flexibility               |   |
|---------------|------------|---|---|---|--------------------------------------|---|
|               |            | Part-time                               | Career breaks/<br>Time credit                               |   |                                      |   |
| First pillar  | Membership | Automatic                               | Automatic   | Automatic   | Automatic                            |   |
|               | Cover      | Size of pension proportionately reduced | Size of pension unaffected – absences given equal treatment | No influence  | No influence                         |   |
| Second pillar | Membership | Company                                 | No exclusion  | No influence  | Exclusion                            | Depending on operationalisation, could be studied to limited extent |
|               |            | Sector                                  | No exclusion  | No influence  | Exclusion                            | Exclusion   |
|               | Cover      | Company                                 | Cannot be studied based on PSBH data                        | Cannot be studied based on PSBH data  | Cannot be studied based on PSBH data | Cannot be studied based on PSBH data                                |
|               |            | Sector                                  | Size of pension proportionately reduced                     | Size of pension proportionately reduced – unless absences given equal treatment | No influence                         | Exclusion   |
| Third pillar  | Membership | Equal participation                     | Cannot be studied based on PSBH data                        | Equal participation   | Cannot be studied based on PSBH data |   |
|               | Cover      | Equal participation                     | Cannot be studied based on PSBH data                        | Equal participation   | Cannot be studied based on PSBH data |   |

 = further study necessary

employment in the sector.

As far as the *size* of the pension build-up is concerned, the influence of the various *temporally* flexible labour patterns is clear. Both part-time employees and employees taking a career break are entitled to a collective company pension that will be considerably lower than the second pillar pension for full-time employees who do not take a career break. The size of the pension paid to these temporally flexible employees is proportionately reduced by the non-performed working time. However, if the pension scheme includes a provision for equal treatment of absences for part-time work and career breaks, this proportionate reduction in the second pillar pension is counteracted. Our analyses of the CAOs reveal that the provisions concerning equal treatment of absences in some CAOs are included for employees who take a career break, but never for part-time employees. This implies that the non-performed working time will always be fully reflected in the size of the second pillar pension for part-time employees; however, some sectors will provide for an equal treatment of absence for employees who take a career break. In theory, *contractual* flexibility can influence the size of the pension build-up. In any event, this does not seem to appear from analysis of the CAOs. This could not be examined at company level. Finally, *functional* flexibility appeared very important at sector level for the size of the built-up pension. The extent of additional pension build-up was often related to the number of years of service in the sector in question.

In contrast to the second pension pillar, the *participation* of workers in the **third pension pillar** is up to individual choice. Anyone is free to participate and to define the size of their individual contributions. However, this does not alter the fact that actual differences in participation can exist between various social groups. It could be the case, for instance, that flexible employees will participate in the third pension pillar in order to compensate for their non-participation in the second pension pillar. However, this is not shown in the empirical analysis. Neither *temporally* flexible employees nor *contractually* flexible employees participate significantly more in the third pension pillar.

The differences in *pension cover* could only be examined to a limited extent. However, based on limited results, no significant difference is evident. It was not possible to examine whether *functionally* flexible employees participate to a lesser extent or the extent to which they participate.

### 3. The new Law regarding Additional Pensions (WAP)

In terms of our results for the second pension pillar, one *comment* must be made. Our analysis both of company pensions (PSBH data, 1996-2001) and of the sector pensions (CAO content analysis, situation on 1/12/2004) took place within a legislative framework that has been changed by the Law regarding Additional Pensions (WAP). The WAP can be expected to achieve better pension protection for flexible employees.

We expect the introduction of the WAP to have a positive effect on the *participation* of flexible employees. Non-membership of the sectoral pension plan can still only be justified by temporary employees with a contract for less than one year. In addition, the

WAP clamps down on the use of discriminatory measures, such as seniority conditions in the existing pension plans.

In terms of *cover*, we also expect introduction of the WAP to have a positive effect. After all, the WAP introduces a new type of addition pension, the social pension commitment. This pension commitment has to contain at least two periods of equal treatment. In so far as these periods of equal treatment relate to the periods of inactivity by temporally flexible employees, this can be expected to lead to improved cover. However, the question remains as to whether this will provide better protection for all types of temporally flexible employee. The current legislation states that a social pension system must contain at least two equally treated periods. Time credit and career breaks can count as such periods, but part-time work cannot.

The social partners play a significant role in achieving pension protection for flexible employees. They can make an important contribution to generalised participation by flexible employees in additional pension provisions. Our analysis of the CAOs shows that significant differences persist between the various groups of flexible employees (e.g. part-time workers compared to those taking a career break; fixed-term contracts compared to permanent contracts) in terms of participation and cover in the various pension pillars. As indicated above, we expect the introduction of the WAP to remedy this situation substantially, but not for all types of temporally flexible employee. Part-time employees in particular continue to enjoy lower pension protection than other temporally flexible employees. This may be a job for the social partners. The considerable differences between the various types of flexible employee create the need for a debate on pension protection for atypical work situations.

#### 4. Study recommendations

The present study has presented a picture of the social protection of flexible employees in the present pension situation. However, the data currently available do not enable every aspect of this protection to be examined (with equal precision). The grey-shaded boxes in Diagram 1 show the locations of the main gaps in the study.

Within the **second pension pillar**, the biggest gap is at the level of cover. Our comparative analysis of the available survey data (PSBH) and administrative data (pension register) shows that surveys are not suitable ways of studying this problem. Additional pension provisions do after all represent a delicate and complex subject for respondents; moreover, reliable answers often require adequate information about the pension build-up over a long period of time. The existing administrative data (the Pension Register), by contrast, do enable cover to be examined but not the link with the person's career. In order to make this link, the following databases should be linked: the Pension Register, the Labour Market Datawarehouse (DWHA), the database of the Belgian National Pension Service (DB-RVP), the Multisectoral Individual Account (CIMIRe) and the Belgian National Register (RR). The data from the various administrative databases can be mutually linked based on the social security identification number (INSZ number), which is given to everyone who is known to the Belgian social security authorities.

As far as information about the **third pension pillar** is concerned, Diagram 1 shows that information about the participation and cover of employees taking a career break/time credit on the one hand and, on the other hand, functionally flexible employees is currently not available. No direct link exists between flexible labour and protection in the third pension pillar. Moreover, the limited analyses of employees with a part-time or temporary contract do not indicate different participation. Nonetheless, in order to obtain an overall picture of Belgian pension protection, we also have to take the third pension pillar into consideration. As far as career breaks/time credit are concerned, further studies could make use of fiscal data. Mapping out the careers of functionally flexible employees is a more difficult task. The careers of these employees have to be monitored over several career years. Moreover, the same question about participation in the third pillar has to be repeatedly asked. As a result of inadequate wording of the questions in waves 5 to 10, this is not possible using the PSBH data. In the successor to the PSBH, the EU-SILC, the question about contribution to the third pension pillar is not asked.

## 5. Concluding remarks

This study has examined the extent to which Belgian pension protection is adapted to the increased flexibility of the labour market and the emergence of flexible career patterns. The question is then, to what extent are the pension schemes we have inherited from the middle of the last century still based on some traditional assumptions about labour market participation (male, full-time and uninterrupted standard careers)?

Our analyses reveal that pension cover is optimum for employees who spend their entire working career in a full-time job. However, part-time work leads to reduced pension rights. This is the case to a lesser extent for career interruptions in the form of career breaks/time credit. Since the system of equal treatment of days is applied much less frequently to part-time work, the pension protection of part-time workers is considerably lower than that offered to employees taking a career break/time credit. For instance, the pension cover of employees taking a career break/time credit is less affected by absence from work than that of part-time workers. We believe that this observation requires further reflection on the system of equal treatment for temporally flexible employees. The principle of equality states that people who are in a similar situation must be treated in a similar way. Is it possible to justify a situation where some absences do grant a right to equal treatment while others do not and where certain groups of employees thus obtain considerably better pension cover than others?

A second comment can be made about the lower pension protection of part-time work. As in most European countries, part-time employment in Belgium is chiefly a female concern. Women are on average 7 times more likely to work part-time than men. This implies that, on average, women are at higher risk of having inadequate pension cover. Moreover, it is known that women today run a higher risk of being single than in the past. As a result of the higher divorce rates and family dilution, the age risk is less shared among the family. From the point of view of preventing poverty among the elderly, these two observations are rather alarming. Without new policy measures, the lower pension

protection offered to women with irregular careers in today's social context will result in increased poverty among retired women.