Info sheet
Private Supplementary Pension for the Self-Employed (PSPS)

The Private Supplementary Pension for the Self-employed (PSPS) is increasingly seen as a way to build up a pension and self-employed entrepreneurs are being informed about these 'new' possibilities by various parties. Yet this scheme has been around since the early eighties. So why is there suddenly so much interest in the PSPS?

Objective of the PSPS

The Belgian government wanted to use the Private Supplementary Pension for the Self-employed to provide these entrepreneurs with the opportunity to finance a supplementary pension in the form of a capitalisation scheme. This would raise their pension to the same level as that of employees. Until December 2003, this life insurance could only be taken out through a social security insurance fund.

The Programme Laws of 24 December 2002 and 22 December 2003 introduced a number of changes to this. From 1 January 2004, PSPS policies could be offered by all pension providers. This meant that banks and insurance companies were also now able to offer this form of pension scheme.

This legislation also gave all self-employed entrepreneurs equal rights regarding the supplementary pension scheme. The PSPS law therefore also amended the regulations of the existing pension schemes for specific professions such as physicians, dentists, pharmacists, physiotherapists, notaries, lawyers and bailiffs.

Is the PSPS actually so beneficial?

All self-employed entrepreneurs who at least pay social security contributions while carrying out a main occupation as a self-employed person may take out a PSPS pension. When the Belgian government wants to encourage people to build up a personal pension, it often does so by offering tax incentives. And for this reason it allows a maximum of 8.17% of a limited occupational income to be deducted under the personal income tax scheme. The reference income is the income over which social security contributions are paid, or, in other words, the indexed occupational income of the third year prior to payment of the PSPS premium. This amount is easily found. It is stated on the request for payment of your social security contributions. The maximum contribution is set at 9.4% of this reference income when the PSPS policy is 'social' in nature. A PSPS policy is seen as 'social' when 10% of the pension premium that is reserved for a supplementary retirement and/or survivor's pension is paid into a solidarity scheme.

The possible solidarity schemes include contribution waivers in the event of incapacity for work, disability or maternity, benefits in the event of temporary or permanent incapacity for work or in the event of death during the professional career, the payment of a fixed allowance in the event of serious illness or dependency of the pensioner or increase of the current pension benefits or survivor's pension. In all cases, the maximum premium is limited to 3,027.09 euros for a standard PSPS and 3,482.82 euros for a social PSPS (2015 figures).

The premiums paid are deductible as social security contributions. This means that the premium can also be deducted when the self-employed person chooses the flat-rate business-expenses scheme. The premium reduces taxable earnings so that the self-employed entrepreneur can benefit from tax savings at the marginal rate. The reduction in occupational income means that the basis for calculating social security contributions is also reduced.

The fact that PSPS premiums, unlike Individual Pension Commitment premiums, for instance, are not subject to insurance taxation means that the premium return is higher than with an alternative form of pension scheme.

More information?

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And what about the payment of the accumulated capital?

Accumulated pension capital is paid out on retirement, at the age of 60 at the earliest. The policy holder may also receive the pension in the form of a benefit payment.

The payment is taxable in the form of notional interest, regardless of the form in which it is received. The amount paid out will not be taxed as a lump sum at a special rate, as is the case with group insurance policies or Individual Pension Commitment premiums. During ten years of payment after reaching the age of 64, or having received thirteen years of payment, the amount paid out will be taxable on a percentage of the capital, depending on age. If retirement takes place at 60, this will be 3.5%, and at 65, it will be 5%.

Since this notional interest must be declared as income, it will be taxed at the marginal rate. If the former self-employed entrepreneur only receives a state pension, the tax burden will be extremely limited. If, however, the payment is received in combination with other income from fixed assets, the marginal tax burden can rise. In such a case, it could exceed the specific taxation of 16.5% from group insurance, for example.

PSPS and the 80% rule

In addition to the PSPS, self-employed company directors also have the possibility, with regard to occupational pensions, to build up a supplementary pension within their company. This can be in the form of group insurance, Individual Pension Commitment or by means of mutual agreement between the company and the company director. The premiums are deductible if they meet the limitations imposed by the 80% rule. The accumulated capital may not be greater than that which is necessary to insure supplementary benefits amounting to 80% of the last gross salary, after deduction of the state pension, in relation to the career.

Before 1 January 2004, there was some confusion about whether a PSPS policy could also be taken out when group insurance or another form of pension existed within the company. The amendment in the law, however, clarified the situation. The accumulated capital in PSPS must be included in the calculation of the 80% rule.

There is currently uncertainty as to whether the PSPS accrued prior to the introduction of this law should be included in the 80% rule. A literal interpretation of the new legislation could mean that the accumulated reserve does not have to be included. The tax authorities, however, are yet to endorse this viewpoint. For this reason, we would advise including the total reserve of the PSPS until such time as the Federal Public Service Finance has made a clear decision.

Taking out a PSPS policy can be a fiscally interesting investment, but it will also impact on the annual premium in your group insurance or Individual Pension Commitment. A group insurance policy or an Individual Pension Commitment usually also contains supplementary insurance cover in the event of disability. The reduction in the premium of the primary pension/life insurance scheme also often results in the premium for supplementary insurance cover needing to be reduced. Taking out a PSPS policy can therefore affect the favourable fiscal cover of your incapacity for work risk.

Property financing

Your capital can be used to acquire, build, renovate or improve property. Examples include purchasing a house, building a veranda, constructing a permanent swimming pool, laying out a garden, installing a new kitchen, placing solar panels, and so on.

All types of property are permissible (e.g. house, building land, commercial premises, garage, etc.). It does not have to be for a first or only home. The property can be located in Belgium or in another country of the European Union.

Financing your property project with an advance from your non-statutory pension is an economical alternative to a mortgage loan: no valuation or administration fees, no notary or mortgage costs, and with a flexible repayment structure, etc.