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RISK & BENEFITS

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Guaranteed interest rates, the guarantee under the Supplementary Pensions Act (WAP guarantee), the reference interest rate: What is the difference?

Guaranteed interest rates, the guarantee under the Supplementary Pensions Act (WAP guarantee), the reference interest rate: the terms that employers are confronted with nowadays in the context of their supplementary pension schemes, are not easy. That is why we would like to explain precisely what they mean.

Guaranteed interest rate

A branch 21 group insurance offers employees a certain return, i.e. a contractually guaranteed interest rate that is supplemented by a possible profit sharing, depending on the results achieved by the insurer.

As a result of the declining interest rates on bonds in the long-term, the interest rates that insurers guarantee on a branch 21 group insurance have also dropped sharply. At this moment, that guaranteed interest rate lies somewhere between 0.5% and 1%, while it was at 3.25% up until 2013. In a 'continued low interest' scenario, it is also doubtful whether insurers will assign much profit sharing to a branch 21 life insurance. We will have to wait and see whether insurers will again raise their guaranteed interest rates as soon as the long-term interest starts to rise.

Maximum reference interest rate

The maximum reference interest rate is the maximum return an insurer can legally guarantee on the contributions paid into a branch 21 life insurance. This is established by the National Bank of Belgium, but can be changed by the Minister of Economy, subject to certain conditions. At the start of 2016, it was decided via Ministerial Decree to bring the maximum reference interest rate for long-term life insurance in line with the current market interest. The maximum reference interest rate was reduced from 3.75% to 2%.

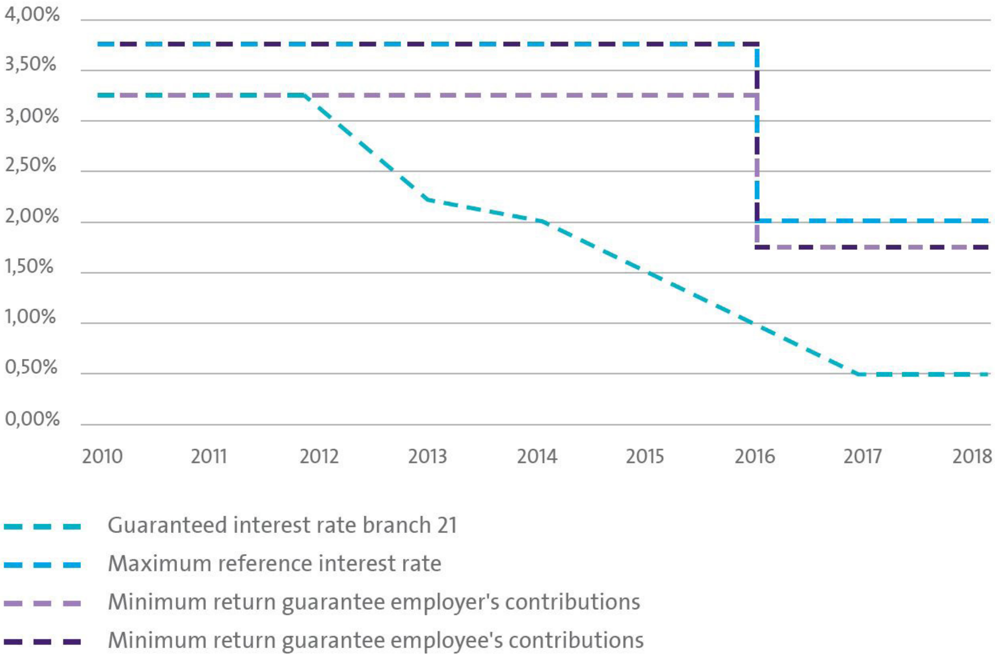
Minimum return guarantee or the WAP guarantee

The minimum return guarantee or the WAP guarantee is the minimum return the employer is required to guarantee according to the Supplementary Pensions Act (WAP) on the employer's and employee's contributions in a group insurance of the defined contributions and cash balance until the employee has left the organisation or has retired. In a defined benefit group insurance, this minimum return guarantee only applies to the employees' contributions. The WAP imposes this obligation on the organiser of the group insurance, i.e. the employer, and not on the pension institution. If the return of the insurer is insufficient, the employer will have to make up the difference from its own funds.

Up until 2016, this guaranteed return was equal to a fixed percentage: 3.25% on the payments by the employer and 3.75% on the payments by the employee. Since 1 January 2016, this return guarantee varies annually and is established by the FSMA on the basis of the average of the Belgian OLOs over 10 years with a minimum of 1.75% and a maximum of 3.75%. This has resulted in the statutory minimum return guarantee or WAP guarantee amounting to 1.75% ever since 2016, for both employers' and employees' payments.

Conclusion

As the graph below shows, the guaranteed interest rates, the maximum reference interest rate and the minimum return guarantee have been adjusted to match the current market interest, albeit not all at the same tempo, nor at the same percentage.



Since 2016, the employer is required to guarantee a statutory minimum return of 1.75% on the paid contributions in a branch 21 group insurance. Since 2016, the insurer may guarantee a maximum of 2% on the paid contributions, but in practice, only guarantees an interest rate of 0.5% to 1%. The current guaranteed interest rates of the insurers are therefore insufficient to cover the minimal return guarantee of 1.75% on the part of the employer. The guaranteed interest rates in branch 21 on contributions made between 2013 and 2016 also fall short of the statutory minimum return guarantee that was still at 3.25% or 3.75% at that time.

At the end of the day, the employer has to make up for these shortfalls.

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