

# Spain

## Spain: Pension system in 2016

The Spanish public pension system consists of a single, earnings-related benefit in the contribution level, with a means-tested minimum pension. There is also a non-contribution means-tested level, which replaces the previous special social assistance scheme.

## Key indicators: Spain

		Spain	OECD
Average worker earnings (AW)	EUR	26 710	34 803
	USD	28 106	36 622
Public pension spending	% of GDP	11.4	8.2
Life expectancy	at birth	83.3	80.9
	at age 65	21.3	19.7
Population over age 65	% of working- age population	30.6	27.9

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## Qualifying conditions

Following the pension reform of 2011, the retirement age for a full pension benefit has just been increased from 65 years to 65 years and four months in 2016 if an individual has less than 36 years and six months of contributions. The legal retirement age will be 67 years for both men and women in 2027. However if an individual has 38.5 years of contributions retirement with full-pension benefits are available from age 65. It is necessary to have 15 years of contributions to qualify for a pension benefit.

## Benefit calculation

### *Earnings-related*

Following the 2011 reform the accrual is still 50% after 15 years and thereafter it will reach 100% after 37 years (from year 15 and onwards every additional month of contributions will increase the accrual with 0.19% per month from months 1 to 248, and 0.18% per month thereafter. The maximum accrual will still be 100% of the earnings base.

A new Adjustment Pensions Index (IRP) is applied from 2014 and a Sustainability Factor (FS) will be introduced in 2019 and will be applicable to new pension benefits. This factor takes into account the growth of the life expectancy of the new pensioners. Based on provisional national estimates the Sustainability Factor is projected to be 0.88 in 2061, for those entering the labour market at age 20 in 2016.

The earnings base is equal to the past earnings over the last 19 years. From 2022 onwards the earning base will be calculated with the past 25 annual earnings, up-rated in line with prices, apart from the last two years. This means that the maximum replacement rate relative to final salary is less than 100%.

There is a ceiling to earnings for contributions and benefit purposes of EUR 43 704 in 2016.

Since 2014 pension benefits are indexed to a new Adjustment Index calculated according to a number of different factors: number of contributory pensions, the variation of the average pension amount and the balance between revenues and expenses of the Social Security system. The index value will produce a possible range between a minimum of 0.25% and a maximum equal to Consumer Price Index and an additional 0.50%.

### ***Minimum and maximum***

There is a minimum pension benefit payable from age 65 equal to EUR 636.1 per month for single pensioners and EUR 784.9 per month for pensioners with a dependent spouse. There are 14 payments per year. There is also a minimum pension benefit equal to EUR 735.7 per month for widows with children and a minimum pension benefit for orphans.

The maximum pension is EUR 2 567.28 per month in 2016 with 14 payments per year.

### **Variant careers**

#### ***Early retirement***

Early retirement is possible four years before the retirement age in the case of involuntary unemployment and 33 years of contributions, and two years before the legal retirement age in the case of voluntary unemployment and 35 years of contributions. The actuarial reduction on pension benefits for early retirement varies from 2% to 1.5% per quarter depending on the length of contributions.

The minimum pension for early retirees is EUR 595 per month for pensioners without a dependent spouse, and EUR 735.7 per month for pensioners with a dependent spouse. The minimum benefit increases after age 65.

Partial retirement is possible from age of 61 years and four months in 2016, with a new employee. In 2027, once the reform is completed, partial retirement will be possible at 63 with 36 years and six months contributed, or 65 years with more than 33 contributed years and less than 36 years and six months) or from 65 years and two months in 2014 (without substitution). Both the new and the partially retired employee will contribute fully to the pension system. Prior to the reform, partially retired only contributed proportionally of the working day effectively worked.

#### ***Late retirement***

It is possible to defer the pension benefits withdrawal after normal retirement age. For workers who have contributed between 15 and 25 years and continue working after the age of 67, the pension benefit will increase by 2% of the base of calculation per additional year. The increase is 2.75% with 25 to 37 years of contributions and 4% with 37 years of contributions.

From 67 there is also the possibility of combining partial pension and part-time job. In this case, there is no obligation to replace the remaining working hours.

Since March 2013, it is possible for individuals above the normal retirement age to combine retirement benefit receipt and work. However in these cases the amount of the pension benefit is reduced by the 50%.

### ***Childcare***

Maternity and paternity period are covered. Three years in leave of absence for caring children are contributed for benefits like: retirement pension, permanent incapacity pension, widows and orphanage pensions, maternity and paternity leaves.

In case of maternity, a supplement will apply to contributory pensions for retirement, widowhood and permanent disability as of 1 January 2016. The additional percentage of the contributory pension will be 5% in case of having two children, 10% for mothers of 3 children and 15% in the case of four or more.

## ***Unemployment***

During periods of unemployment-benefit receipt the government pays the employers' contribution and the worker pays the employee's contribution. The base salary for contributions is the average salary in the six months prior to the unemployment period. The duration of the unemployment benefits depend on the number of contributed days during the past six years, varying between four months and two years. The unemployment assistance which is paid thereafter does not create any pension credits except for individuals aged 55 years or more whose contributions are paid by the government until they reach the retirement age. These contributions are levied on the 100% of the minimum base equal to EUR 764.4 per month in 2016.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

Pension benefits are taxed. A new tax rule allows the pensioners with low pension benefits not to pay taxes in advance every month.

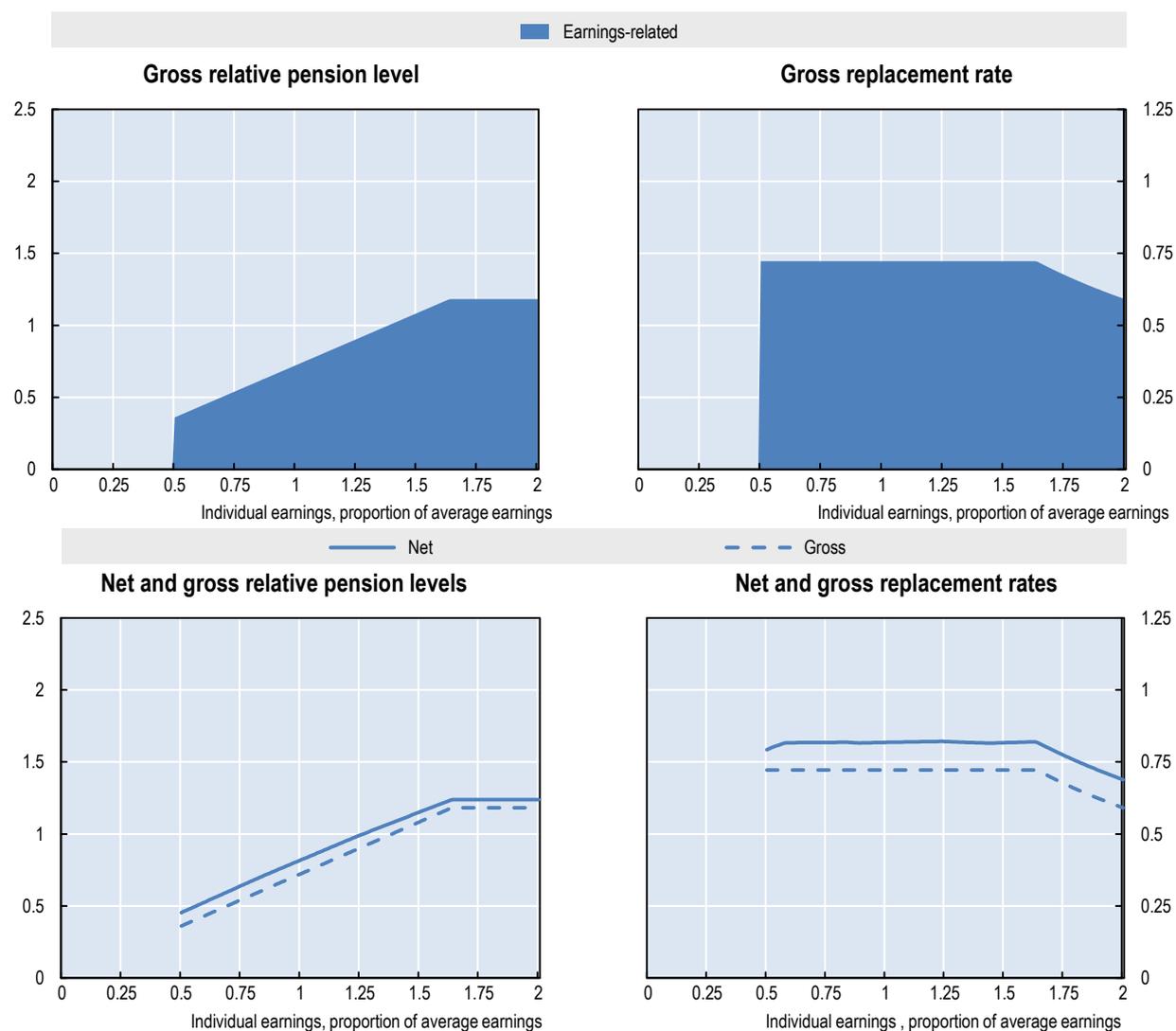
### ***Taxation of pension income***

There are no special allowances for pension income, but there are reductions for people aged over 65 years and larger reductions for individuals aged 75 or above.

### ***Social security contributions paid by pensioners***

Social security contributions are not levied on pension income.

## Pension modelling results: Spain in 2061 retirement at age 65



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	36.1	54.2	72.3	108.4	118.2	118.2
Net relative pension level (% net average earnings)	45.4	64.0	81.8	115.2	123.9	123.9
Gross replacement rate (% individual gross earnings)	72.3	72.3	72.3	72.3	59.1	39.4
Net replacement rate (% individual net earnings)	79.3	81.8	81.8	81.7	68.8	48.9
Gross pension wealth (multiple of individual gross earnings)	13.6	13.6	13.6	13.6	11.2	7.4
Net pension wealth (multiple of individual net earnings)	15.0	15.4	15.4	15.4	13.0	9.2
	17.3	17.8	17.8	17.8	15.0	10.7

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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