

Spain

Spain: Pension system in 2020

The Spanish public pension system consists of a single, earnings-related benefit, 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	26 934	34 301
	USD	30 764	39 178
Public pension spending	% of GDP	10.9	7.7
Life expectancy	at birth	83.3	80.6
	at age 65	21.3	19.7
Population over age 65	% of working- age population	32.8	30.4

Qualifying conditions

The retirement age for a full pension benefit (without actuarial reduction) is 65 years and ten months in 2020 if an individual has less than 37 years 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 is 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 reaches 100% after 37 years (from year 15 onwards every additional month of contributions increases the accrual by 0.19% per month from months 1 to 248, and 0.18% per month thereafter). The maximum accrual remains at 100% of the earnings base.

The Adjustment Pensions Index (IRP) was applied from 2014 to 2018 to all pensioners but when the 2018 budget was finally approved, the IRP was suspended, so a revaluation was established, in an extraordinary manner, of an additional 2.75% for minimum pensions, as well as non-contributory pensions. The rest of pensions increased by 1.35% in addition to the revaluation in January 2018. Additionally, for 2018, as contributory pensions were indexed according to the expected CPI (Consumer Price Index) and this meant a 1.7%, a supplement of 0.1% was recognised to all pensions. In 2019, a general increase of 1.6% was approved and 3% in minimum and non-contributory pensions. In 2020 there was a general increase of 0.9%.

The Sustainability Factor has been suspended (Law 6/2018, of July 3, of General Budgets of the State for the year 2018); the Commission for Monitoring and Evaluation of the Agreements of the Pact of Toledo is supposed to reach an agreement on the application of the necessary measures to ensure the sustainability of the system, no later than 2023. For the modelling a long-term sustainability factor of 0.90 has been assumed for 2063, as if there had been no suspension.

The earnings base is equal to the past earnings over the last 23 years, in 2020. From 2022 onwards the earning base will be calculated with the last 25 annual earnings, up-rated in line with prices, apart from the last two years which are not uprated. This means that the maximum replacement rate relative to final salary is less than 100% with positive real-wage growth.

There is a ceiling to earnings for contributions and benefit purposes of EUR 48 841.2 in 2020.

Minimum and maximum

There is a minimum pension benefit payable from age 65 equal to EUR 683.5 per month for single pensioners and EUR 843.4 per month for pensioners with a dependent spouse. There are 14 payments per year. There is also a minimum pension benefit equal to EUR 790.7 per month for widows with children and a minimum pension benefit for orphans.

The maximum pension is EUR 2 683.34 per month in 2020 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 639.5 per month for pensioners without a dependent spouse, and EUR 790.7 per month for pensioners with a dependent spouse. The minimum benefit increases after age 65.

Partial retirement is possible from age 61 years and ten months in 2020, with a new employee. In 2027, once the reform is completed, partial retirement will be possible at 63 with 36 years and six months of contributions, or 65 years with more than 33 contributed years and less than 36 years and six months). Both the new and the partially retired employee will contribute fully to the pension system.

Late retirement

It is possible to defer pension benefit withdrawal after the 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 employment. 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 caring for children are credited for 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 52 years or more whose contributions are paid by the government until they reach the retirement age. These contributions are levied on 125% of the minimum base, equal to EUR 1 108.5 per month in 2020.

Personal income tax and social security contributions

Taxation of pensioners

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

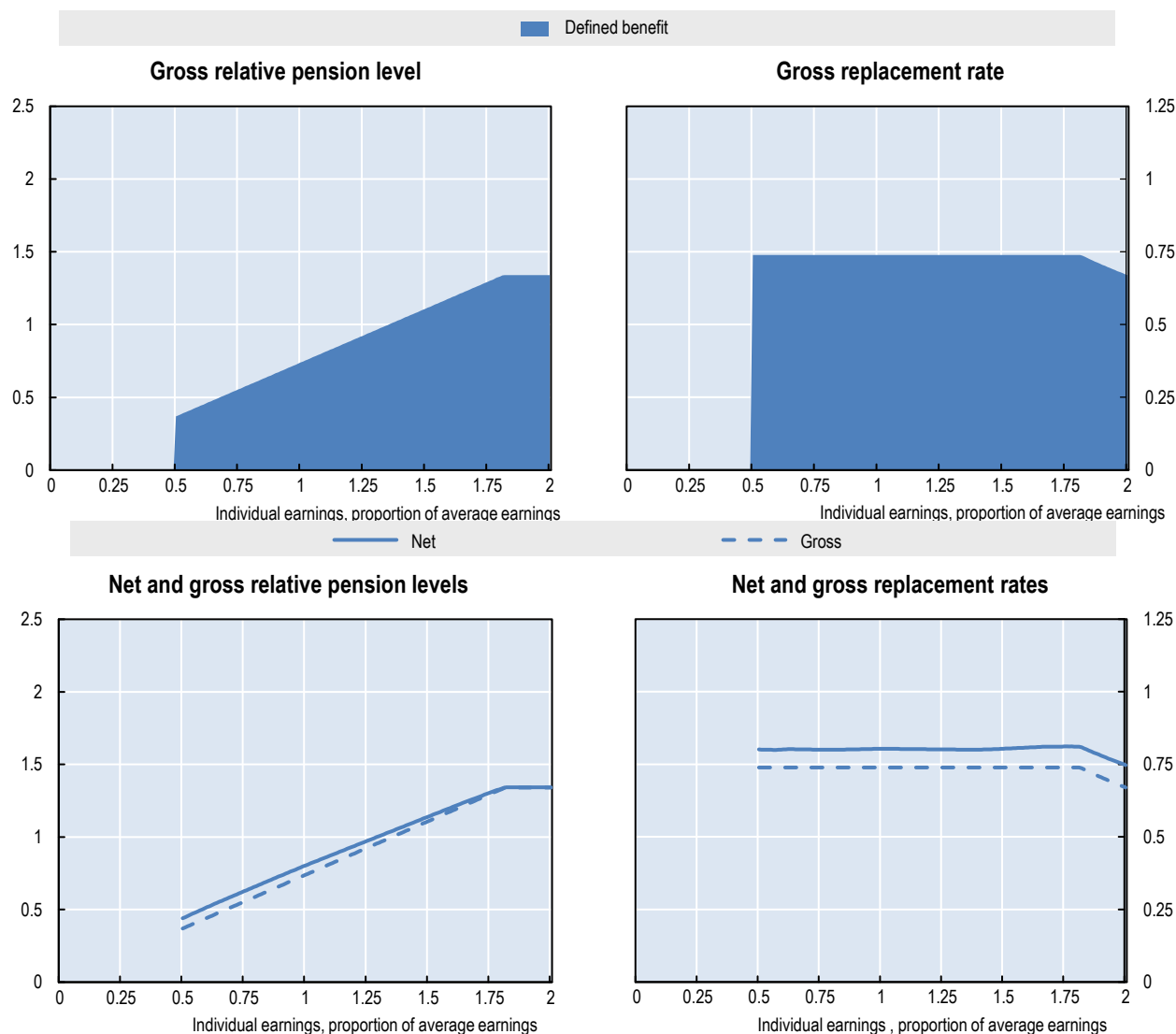
Taxation of pension income

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 2063 retirement at age 65



	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Men						
Women (where different)						
Gross relative pension level (% average gross earnings)	37.0	55.4	73.9	110.9	134.0	134.0
Net relative pension level (% net average earnings)	44.0	62.6	80.3	114.0	134.2	134.2
Gross replacement rate (% individual gross earnings)	73.9	73.9	73.9	73.9	67.0	44.7
Net replacement rate (% individual net earnings)	80.1	80.0	80.3	80.3	74.7	53.8
Gross pension wealth (multiple of individual gross earnings)	14.7	14.7	14.7	14.7	13.3	8.9
Net pension wealth (multiple of individual net earnings)	15.9	15.9	16.0	16.0	14.8	10.7
	18.4	18.4	18.5	18.5	17.2	12.4

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 22 in 2020. Tax system latest available: 2020.