Portugal

Portugal: Pension system in 2016

Portugal has an earnings-related public pension scheme with a means-tested safety net.

Key indicators: Portugal

		Portugal	OECD
Average worker earnings (AW)	EUR	17 521	34 803
	USD	18 437	36 622
Public pension spending	% of GDP	14.0	8.2
Life expectancy	at birth	81.4	80.9
	at age 65	19.9	19.7
Population over age 65	% of working- age population	34.6	27.9

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Qualifying conditions

The normal age of retirement with an old age pension was 66 years in 2014 and 2015. It increased to 66 years and 2 months in 2016. This development follows the automatic process of adjusting the normal age of retirement by 2/3 of gains in life expectancy from age 65 measured as the average of the previous two years. The normal age of retirement can be reduced by 4 months for each year of contributions exceeding 40 years when the beneficiary turns 65 years old with a 65-year threshold.

Pensioners also receive an additional amount equal to their monthly pension every year in July and December. Since 2014 the December additional amount was divided into 12 monthly payments and paid every month instead. In 2011 a progressive Extraordinary Solidarity Contribution (CES) was implemented for pension incomes over EUR 5 000 per month. This contribution changed over the years, on extending the coverage as well as increasing the applicable contribution base. In 2016 it was applied to pension incomes over EUR 4 611.42 per month (7.5% to the pension amount from EUR 4 611.42 to EUR 7 126.74 plus 20% of the pension amount above EUR 7 126.74).

Benefit calculation

Earnings-related

The pension amounts are calculated according to the following formula:

Pension amount = Reference Earnings x Accrual Rate x Sustainability Factor[1]

The annual earnings registered in the social security and taken into account to the Reference Earnings calculation (RE) are adjusted according to the Consumer Price Index (CPI) without considering house prices.

For the purpose of calculating the pension according to the whole contributory career, the earnings amounts registered between 1 January 2002 and 31 December 2011 are adjusted by applying an index resulting from the weighting of 75% of the CPI, and of 25% of the average evolution of the earnings which underlie the contributions stated to the social security, whenever this evolution is higher than the CPI. The annual adjustment index cannot be higher than the CPI, plus 0.5%.

[1] Since 2014 the sustainability factor is applied only to early retirement pensions and some invalidity pensions.

The adjustment is made by applying the coefficient, corresponding to each one of the years considered, to the annual earnings taken into account for the reference earnings calculation. The indexes for the calculation basis adjustment are due to be reassessed.

For the reference earnings calculation purpose, whenever the number of calendar years with earnings registration is higher than 40, it will take into account the best 40 annual earnings, after they have been adjusted.

The pension accrues at 2% of the earnings base for each year of contributions for 20 or fewer years' contributions, with a lower limit of 30%. For beneficiaries with 21 or more years of contributions, the accrual rate ranges between 2% and 2.3% depending on earnings. The schedule for the accrual rate depends on individual earnings relative to the value of the IAS (*Indexante dos Apoios Sociais* – Social Support Index; EUR 419.22 till 2016). Each tier of earnings accrues pension at a different rate. Pension accrues for a maximum of 40 years.

Reference earnings/IAS	≤ 1.1	> 1.1 – 2.0	> 2.0 – 4.0	> 4.0 – 8.0	> 8.0
Accrual rate (%)	2.3	2.25	2.2	2.1	2

The earnings measure was the best 10 of the final 15 years. This measure was extended and became lifetime average earnings from 2017. People who joined the system after 2002 will be fully covered by the new rules. For people with more than 40 years' contributions, only the best 40 count in the benefit formula.

The sustainability factor is an adjustment feature of the pensions system to longevity changes; this factor results from the relation between the average life expectancy at age 65 in 2000 (previously 2006) and the one that will occur in the year before the pension claim.

The normal age of retirement is now linked to longevity increases. At the beginning of each year adjustment that incorporates the ratio between the average life expectancy at age 65 in the first two of the previous three years before the pension date.

The sustainability factor is now considered only for old-age retirements below the normal age of retirement or at the date of the invalidity pension conversion into an old-age pension (it is applied when the pensioner completes 65 years of age). This sustainability factor does not apply to the old-age pensions resulting from the conversion of invalidity pensions beginning up to 31 December 2007 or total invalidity pensions, if the insured person:

- At the date when he/she completes 65 years of age, had received this pension for more than 20 years;
- Was registered in the social security on 1 June 2007 and had received this pension for a longer period than half of the time that elapsed between that date and the one on which he/she completes 65 years of age.

The sustainability factor for 2016 was 0.8617 (the penalty was 13.88%) for old-age retirement below the normal age of retirement and 0.9291 (the penalty was 7.09%) for the conversion from invalidity to old-age pension at age 65.

Although there is a general mechanism for accrual of pension amounts already in payment that is indexed to prices, with larger increases on smaller pensions, this mechanism was suspended for 2013, and partially reactivated in 2016, for pensions under EUR 628.83 per month.

In case of accumulation of earnings with an old-age pension the annual amount of pension is increased by 2% of the total earnings registered; this increase is effective from 1 January of each year and it refers to the earnings registered in the previous year.

An extraordinary solidarity contribution has been implemented on all sorts of pension income, independently of its origin (public or private pensions, private pre-funded bank products, etc.). The CES amount is calculated before taxes. In 2016 the thresholds were the same as in 2015 however the taxes were reduced by half in relation to the previous year. The table below shows the extraordinary contributory rate schedule for these contributions on pension income.

Pension income tiers	Pension income tiers (in Euros)	Solidarity Extraordinary Contribution (CES) 2016
1	> 4 611 and ≤ 7 126	7,5% x [PA – 4 611]
2	> 7 126	7,5% x [2 515] + 20% x [PA – 7 126]

Minimum

For people aged 66.2 or more who do not qualify for the earnings-related scheme, the monthly social pension was EUR 202.34 in 2016.

This is only paid if total income for a single person does not exceed 40% of the IAS or 60% of the IAS in case of couples. Again, there are 14 monthly payments, but to help cope with the crisis the 14th month payment has been distributed over the 12 calendar months.

Pensioners of the social pension are entitled to receive the Solidarity Extra Supplement on top of their pension. The monthly amount of this benefit is EUR 17.61 for those under 70 years old and EUR 35.20 for those with at least 70 years of age.

Targeted

The Solidarity Supplement for the Elderly (SSE), the main targeted benefit aimed at fighting poverty among the elderly, came into full effect in 2008 by extending eligibility to people aged 65 or older. Additional eligibility conditions for this benefit are: receiving old-age or survivors' pension (national citizens not entitled to the social pension because they do not fulfil its means test may also be eligible); and fulfilling the SSE very comprehensive means test.

The SSE resembles the Social Insertion Income as it is a supplement equal to the difference between the beneficiary's income and a given threshold, which is at the same time the means test condition. The SSE is therefore equal to the difference between the beneficiary's income and the following Reference Amounts (RA). In 2016 threshold has been increased twice:

- EUR 5 022.00 per year in January.
- EUR 5 059.00 per year in April.

The beneficiary's income is composed of: his/her own income; the spouse's income; part of the income of their sons' households, denominated "family solidarity". The "family solidarity" component is added to the beneficiary's income to determine entitlement and the amount of the SSE.

To calculate the "family solidarity", for each son/daughter the total yearly income of his/her household is taken and divided by the number of adult equivalents in that household (scale of equivalence:

1 to the first adult; 0.7 for each subsequent adult and 0.5 for each minor) and then, according to the table below, the family solidarity is determined as a percentage of the equivalent income of the household. Those whose sons or daughters households' equivalent income is placed in the fourth tier are not eligible for the SSE.

Tier	Equivalent income of the household	Family solidarity (% of the equivalent income)
1st	2.5 x RA	0%
2nd	> 2.5 x RA and ≤ 3.5 x RA	5%
3rd	> 3.5 x RA and ≤ 5 x RA	10%
4th	> 5 x RA	Exclusion from SSE

Variant careers

Early retirement

Early retirement due to long contributory careers has been temporarily suspended since 2012. Early retirement was previously possible if the insured person had at least 55 years of age and 30 calendar years with earnings registration at age 55. Workers in very specific set of hardness jobs are entitled to retire earlier (rules not specified here; see unemployment section below for early retirement due to long-term unemployment).

In 2015, a restructured temporary early retirement scheme for long contributory careers was introduced for individuals aged 60 or older and having at least 40 years of contributory career. The penalty for early retirement remained the same: a reduction rate of 0.5% for each month of anticipation until the normal age of retirement. Each contributory year above the 40 year of contributory career reduces the penalty by 4 months, with a 65-year threshold. After 2016, the rules prior to the 2012 suspension of early retirement were reintroduced and in March were suspended again.

The (suspended) early retirement due to long contributory careers allows the social security beneficiaries to claim the pension before normal age of retirement years of age under a scheme for rendering pensionable age flexible. The pension amount has a reduction rate of 0.5% for each month of anticipation.

The number of anticipation months is determined between the date of anticipated pension claim and the normal pension age, reduced till 65 years in case of a long contributory career. The insured persons that receive a reduced anticipated pension and have ceased their activity may continue to pay contributions voluntarily in order to increase the pension amount.

If the insured person meets the conditions required to claim anticipated old-age pension without being applied any reduction factor and if he/she does not claim it, the pension will be increased by applying a rate of 0.65% to the number of months completed between the month when those requirements were met and the date when he/she claimed the old-age pension

Late retirement

If the insured person claims the old-age pension when he/she is older than the normal age of retirement and was entitled to standard retirement at that age then the pension amount will be increased by applying the respective monthly rate multiplied by the number of months completed between the month of pension beginning and the month when he/she has reached the normal age of retirement, until the upper limit of age 70.

The monthly increase rate varies according to the number of calendar years with earnings registration completed by the insured person until the date of pension beginning, as follows:

Age	Contributory career (years)	Monthly increase rates
More than 65 years old	15 to 24	0.33
	25 to 34	0.5
	35 to 39	0.65
	More than 40	1

When calculating the global increase rate, it will be taken into account the months with earnings registration due to effective work. The increased pension amount cannot be higher than 92% of the best reference earnings out of the reference earnings on which the statutory pension calculation was based. If the beneficiary dies before requiring the postponed old age pension, the bonus for postponing the retirement will be relevant for computing the survivor's pension, if applicable.

Childcare

Maternity periods (both full leave and part-time work) count in calculating the pension entitlement. These are credited towards the qualifying conditions. Pensionable earnings for these periods are based on pay in the six months before the second month of the start of the leave. From 2002, periods of up to three years caring for children under 12 years old working part time can be treated as if these periods of full-time work.

Unemployment

Periods on unemployment benefits count in calculating pension benefits. Pensionable earnings for these periods are based on pay in the six months before the second month of the start of the unemployment period. This applies both to unemployment and to social unemployment benefits.

There are special rules applying to people in long-term unemployment. People aged 57 or over who are long-term unemployed can retire at age 62 with full pension without decrement. It is required that the minimum contribution conditions are met and unemployment-benefit entitlement is exhausted.

Early retirement is also possible from age 57 with 22 years' contributions for individuals who become unemployed at age 52 or more. In these cases, the pension is reduced with a 0.5% monthly decrement, with a maximum of five years' reduction applied. The table below presents these rules according to the date of becoming unemployed.

Unemployment benefit requirement	**Conditions**		**Penalty/reduction on pension amount**
	At the date of becoming unemployment	**At the date of receiving the pension**	
Prior to December 31 of 2006	50 years or older At least 20 years of registered earnings (at age 50)	55 years or older Unemployment/unemployment assistance benefits have been exhausted and still in involuntary unemployment	0.5% for each month of anticipation up to the age of 60.
	55 years or older	60 years or older Entitlement for old-age pension (15 years of registered earnings) Unemployment/unemployment assistance benefits have been exhausted and still in involuntary unemployment	No reduction
From January 1 of 2007 onwards	52 years or older At least 22 years of registered earnings (at age 50)	57 years or older Unemployment/unemployment assistance benefits have been exhausted and still in involuntary unemployment	0.5% for each month of anticipation up to the age of 62.
	57 years or older	62 years or older	No reduction

		Entitlement for old-age pension (15 years of registered earnings) Unemployment/unemployment assistance benefits have been exhausted and still in involuntary unemployment	

Whenever unemployment is due to an agreed work contract cessation, the pension amount will be subject to an additional reduction rate, which will last until the pensioner reaches the normal age of retirement. Means-tested unemployment assistance subsidy is provided if registered contribution is more than 180 days in the 12 months prior to unemployment and monthly earnings before unemployment is less than 80% of the minimum wage. This allowance can be extended until beneficiaries meet the conditions for early retirement provided that they are 50 years of age when they became unemployed. In 2016 it was created a new benefit for long-term unemployed, re-enacting the assistance benefit one year after its exhaustion if the individual is still unemployed and still fulfils the remaining conditions like the means test.

Personal income tax and social security contributions

Taxation of pensioners

There is a special tax allowance for pensioners of EUR 7 070 for annual pension income It is a special flat rate tax of 3.5% paid on the personal taxable income earned during the year minus the amount of one annual (14 months) national minimum wage.

Taxation of pension income

There is no special relief for pension income.

Social security contributions paid by pensioners

Normally pensions are exempt from social contributions. However, since 2011 a progressive Extraordinary Solidarity Contribution (CES) was implemented for pension incomes. This contribution changed over the years, on extending the coverage as well as increasing the applicable contribution base. In 2016 was applied to pension incomes over EUR 4 611.42 per month (7.5% to the pension amount from EUR 4 611.42 to EUR 7 126.74 plus 20% of the pension amount above EUR 7 126.74).

Workers aged over 65 years with 40 years or more' contributions pay a reduced social contribution tax: 17.3% for the employer and 8% for the employee (total = 25.3%).

Pensioners in work pay a reduced social contribution tax: 16.4% for the employer and 7.5% for the employee (total = 23.9%).

(NEW) Qualifying period – calculation of calendar year relevant to the pension calculation

A qualifying calendar year relevant to pension rights corresponds to:

- One calendar year, provided that there are 120 or more continuous or non-continuous days with earnings registration[2] - earnings from effective work or equivalent situations - (contributory density);

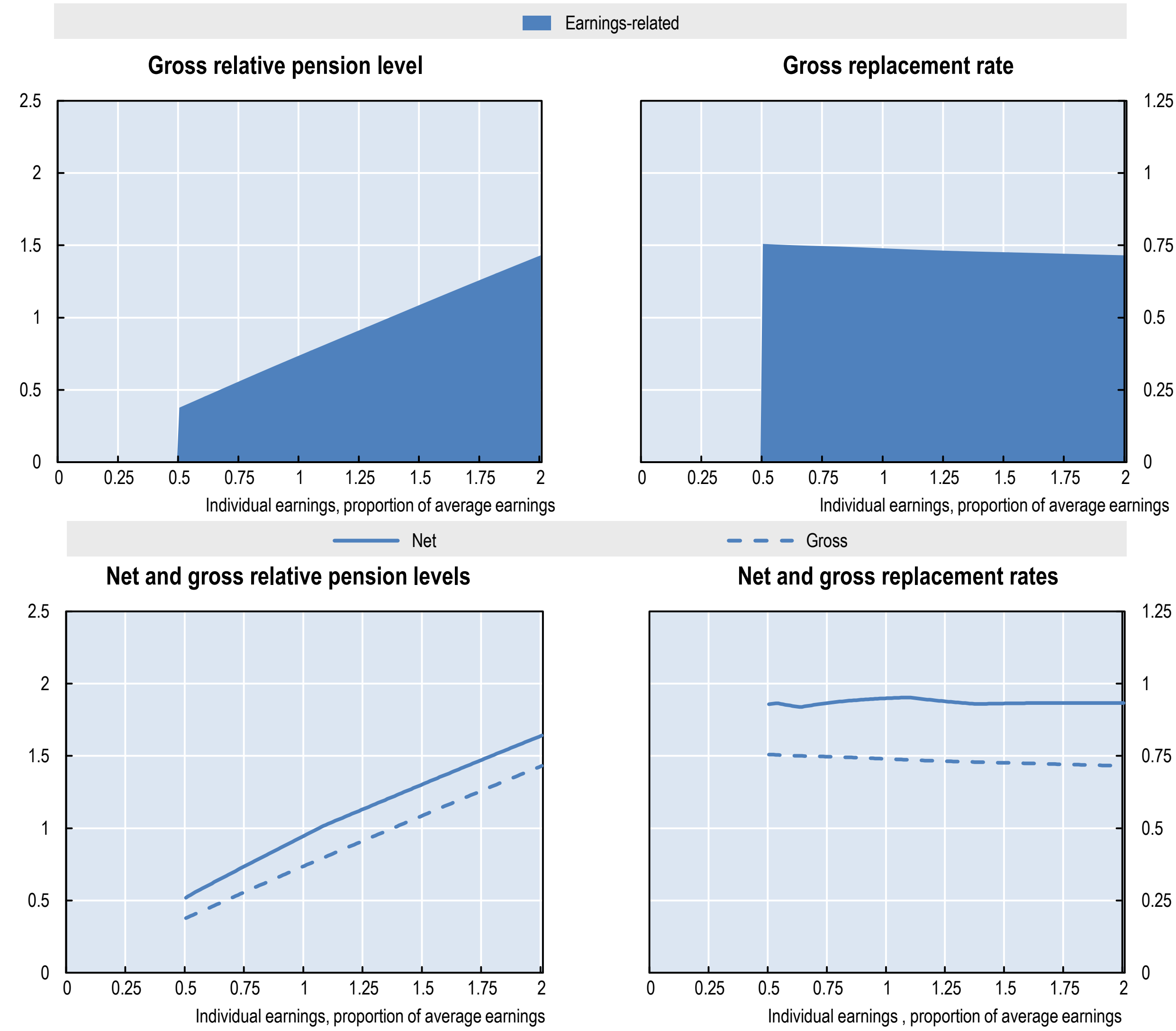
[2] Whenever the number of days registered in a certain calendar year (considered individually or aggregated with others) is more than 120, the exceeding number of days is not taken into account to complete another qualifying calendar year.

- The sparse days of the calendar years with less than 120 days with earnings registration may be aggregated to complete a single qualifying calendar year.

For pension granting purposes there are other qualifying periods (completed under legislation previously in force) which are considered. In what concerns insurance periods completed before 1994, each period of 12 months with earnings registration corresponds to one qualifying calendar year whenever the insured person did not complete the required qualifying period under previous legislation.

The qualifying period may be fulfilled by aggregating insurance periods completed under other domestic or foreign social protection schemes, provided that there is at least one calendar year with earnings registration completed under the general scheme.

Pension modelling results: Portugal in 2064 retirement at age 68



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	37.7	56.1	74.0	108.9	143.1	209.7
(% average gross earnings)						
Net relative pension level	51.9	73.9	94.9	130.5	164.1	223.1
(% net average earnings)						
Gross replacement rate	75.5	74.7	74.0	72.6	71.5	69.9
(% individual gross earnings)						
Net replacement rate	92.9	93.3	94.9	93.1	93.3	90.0
(% individual net earnings)						
Gross pension wealth	12.6	11.9	11.8	11.5	11.4	11.1
(multiple of individual gross earnings)	*14.4*	*13.4*	*13.3*	*13.0*	*12.9*	*12.6*
Net pension wealth	15.5	14.8	15.1	14.8	14.8	14.3
(multiple of individual net earnings)	*17.7*	*16.8*	*17.1*	*16.7*	*16.8*	*16.2*

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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