Portugal

Portugal: Pension system in 2020

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

Key indicators: Portugal

		Portugal	OECD
Average worker earnings (AW)	EUR	19 478	34 301
	USD	22 247	39 178
Public pension spending	% of GDP	12.7	7.7
Life expectancy	at birth	81.7	80.6
	at age 65	20.2	19.7
Population over age 65	% of working- age population	38.6	30.4

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, 66 years and 3 months in 2017 and 66 years and 4 months in 2018, 66 years and 5 months in 2019 and 2020. 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 60 years old with a 60-year threshold.

Pensioners also receive an additional amount equal to their monthly pension every year in July and December.

The minimum contribution period for an old-age pension is 15 years (10 years if completed before 1994).

Benefit calculation

Earnings-related

The pension amounts are calculated according to the following formula:

Pension amount = Reference Earnings x Accrual Rate x Sustainability Factor

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%.

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 421.32 in 2017, EUR 428.90 in 2018, EUR 435.76 in 2019 and EUR 438.81 in 2020). 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 sustainability factor is now considered only for old-age retirements below the normal age of retirement, because, since October 2017, the sustainability factor for disability pensions and for people with very long careers is no longer applied.

The sustainability factor for 2017 was 0.8612 (the penalty was 13.88%) and for 2018 was 0.8550 (the penalty was 14.50%) 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, only applied till October 2017. In 2019, the sustainability factor was 0.8533 with penalty of 14.67% and in 2020 the sustainability factor was 0.8480 and the penalty was 15.20%.

The normal age of retirement is 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. In 2019, the personal retirement age was in force by DL 119/2018 of 27 December, and it take into account the years of the contributory period that exceed the 40 years threshold: for each attained contribution year above 40, the normal age of retirement is discounted by four months, create the personal retirement age.

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 2010, and partially reactivated in 2016, for pensions under EUR 628.83 per month. In 2017, the indexation rule of pensions already in payment was resumed and the first threshold value of the rule was changed from 1.5 times the SSI to 2 times SSI.

In August 2017, 2018, 2019, and 2020 the pensioners with a total amount of pensions equal 1.5 times Social Support Index (EUR 631.98, EUR 643.35, EUR 653.64 and EUR 658.22 respectively) or under received an extraordinary increase (the difference between the ruled increase and EUR 10 or only have an increase of EUR 6 if those pensions had been extraordinarily updated between 2011 and 2015).

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.

Minimum

The minimum pension covers those who are eligible for an earnings-related pension but whose entitlements fall below a certain threshold. The level of the threshold depends on the length of the contribution period with the full minimum pension obtained with 31 years of contributions or more. The following table shows 2020 values:

Contribution period	Annual minimum pension amount
10 – 15 years	EUR 3 854.20 (21% of average wage)
15 – 20 years	EUR 4 043.06 (22% of average wage)
21 – 30 years	EUR 4 461.38 (24% of average wage)
31 and more years	EUR 5 576.76 (30% of average wage)

The annual amounts compose of 14 monthly payments. The thresholds are annually adjusted and grow along with the IAS index, so by a combination of real GDP growth and price inflation.

Targeted

For people aged 66 years and 5 months or more, in 2020 who do not qualify for the earnings-related scheme, the monthly social pension (Pensão Social de Velhice) was EUR 211.79. 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. Pensioners of the social pension are entitled to receive the Solidarity Extra Supplement (CES) on top of their pension. The monthly amount of this benefit is EUR 18.44 for those under 70 years old and EUR 36.86 for those with at least 70 years of age, in 2020. The benefit level of social pension and CES are annually adjusted and grow along with the IAS index, so by a combination of real GDP growth and price inflation.

The Solidarity Supplement for the Elderly (CSI), the main targeted benefit aimed at fighting poverty among the elderly, came into full effect in 2008 by extending eligibility to people aged the same as the legal age of retirement 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 CSI very comprehensive means test.

The CSI 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 CSI is therefore equal to the difference between the beneficiary's income and the following Reference Amounts (RA). In 2019 and 2020 the threshold was EUR 5 258.63 per year. The benefit level is adjusted on a discretionary basis. The modelling assumes price indexation.

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 CSI.

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 CSI.

Tier	Equivalent income of the household	Family solidarity (% of the equivalent income)
1^{st}	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 CSI

Variant careers

Early retirement

Early retirement was possible until 2012, if the insured person had at least 55 years of age and 30 calendar years with earnings registration at age 55. Unemployed and 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). This scheme has been temporarily suspended between 2012 and 2015.

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.

Currently, the number of anticipation months is determined between the date of anticipated pension claim and the normal pension age, reduced till 60 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.

Since October 2017, people with very long careers or reparation for early labour (60 years and 48 or more of contributory career, or 46 years of career and started work at age 14 or less) will not suffer any penalty (including the sustainability factor). In October 2018 the scope of workers with long contributory careers was extended to age 60 and over and at least 46 years of career.

Since January 2019 the "new-flexibility" scheme entered into force. In this scheme the sustainability factor is not applied if the insured person has at least 40 years of contributory period at the age of 60 (except for workers with long careers and workers in a very specific set of arduous jobs) and the pension is subject to a penalty of 0.5% for each month of anticipation to the personal retirement age.

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 or the personal retirement age and was entitled to, 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 or the personal retirement age, 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 the personal retirement age or the normal age of access to the old-age pension	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.

Conditions		**Penalty/reduction on pension amount**
At the date of becoming unemployed	**At the date of receiving the pension**	
52 years or older At least 22 years of registered earnings	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 Entitlement for old-age pension (15 years of registered earnings) Unemployment/unemployment assistance benefits have been exhausted and still in involuntary unemployment	No reduction

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 52 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.

Self-employed

Most types of self-employed workers pay social security contributions amounting to 21.41% of their average reference income while the contribution rate is higher for specific types of self-employed workers with an entrepreneurial activity, at 25.17%. These contribution rates are applied to the average reference income over the last three months which is defined as 70% of the total value of the service provision and 20% of the total amount of income associated with the production and sale of products. Freelancers in the service industry, for instance, have a contribution base of 70% of their service provisions while sole traders in the production sector have a contribution base of 20% of their sales. In some occupations, this may lead to low contribution levels even after the reform.

The calculation of pensions is the same for employees and the self-employed.

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 a special relief for pension income.

Social security contributions paid by pensioners

Public workers pensioners 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[1] - earnings from effective work or equivalent situations - (contributory density);

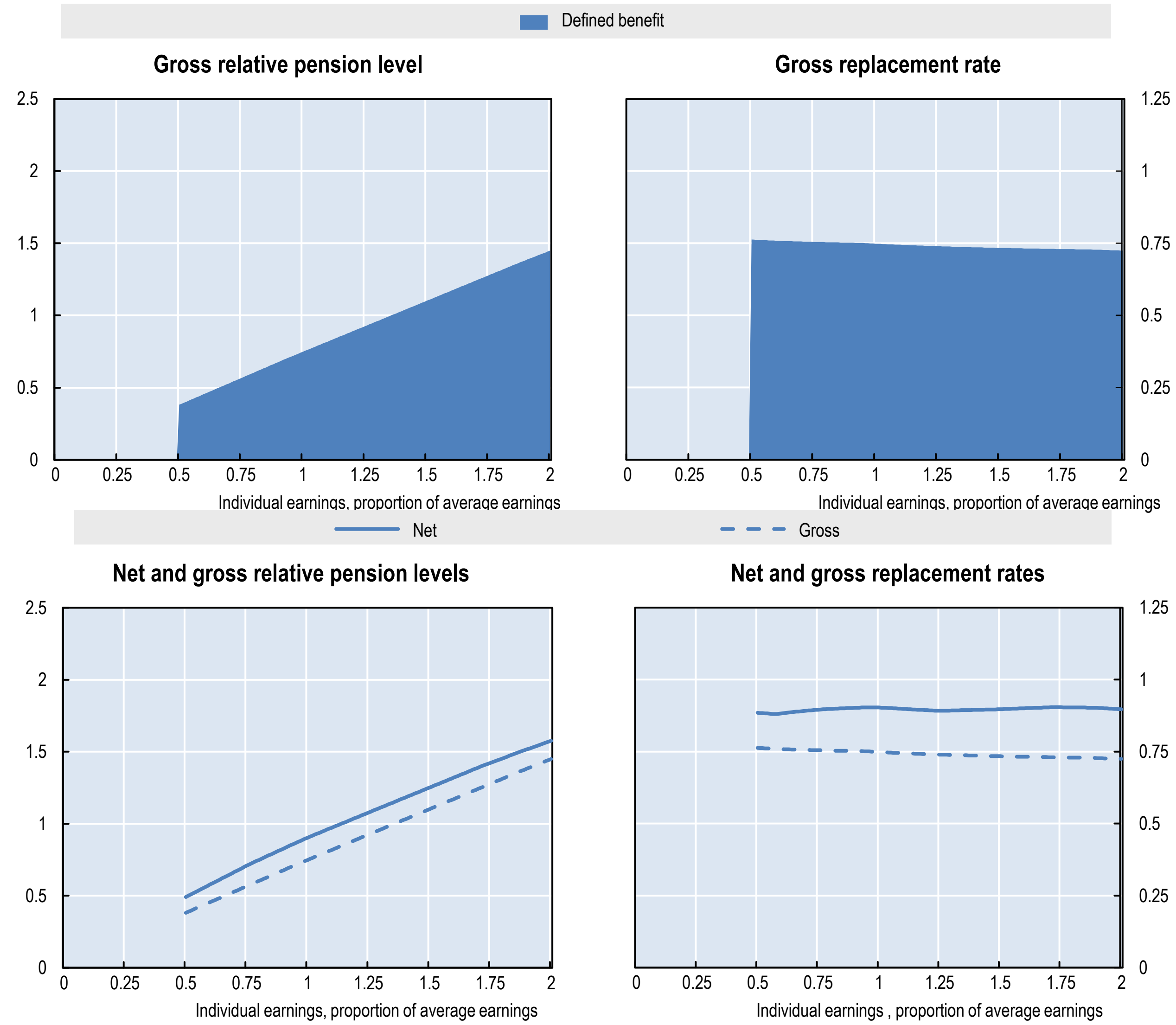
[1] Whenever the number of days registered in a certain calendar year (considered individually or aggregated with others) is more than 120, the exceeding number of days is not taken into account to complete another qualifying calendar year.

- 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 2066 retirement at age 68



Men *Women (where different)*	0.5	0.75	1	1.5	2	3
	Individual earnings, multiple of average					
Gross relative pension level	38.1	56.6	74.9	110.1	144.9	212.1
(% average gross earnings)						
Net relative pension level	49.1	70.8	90.3	125.1	157.6	215.8
(% net average earnings)						
Gross replacement rate	76.3	75.5	74.9	73.4	72.5	70.7
(% individual gross earnings)						
Net replacement rate	88.5	89.6	90.3	89.7	89.7	88.3
(% individual net earnings)						
Gross pension wealth	12.3	12.1	12.0	11.8	11.6	11.4
(multiple of individual gross earnings)	*13.9*	*13.7*	*13.6*	*13.3*	*13.2*	*12.8*
Net pension wealth	14.2	14.4	14.5	14.4	14.4	14.2
(multiple of individual net earnings)	*16.1*	*16.3*	*16.4*	*16.3*	*16.3*	*16.1*

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.