PORTUGAL

Portugal: pension system in 2006

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

Key indicators

		Portugal	OECD
Average earnings	EUR	15 300	28 600
	USD	19 300	35 800
Public pension spending	% of GDP	10.2	7.2
Life expectancy	at birth	78.9	78.9
	at age 65	83.4	83.4
Population over age 65	% of working-age population	27.8	23.8

Qualifying conditions

The standard pension age is 65 although early retirement is possible from age 55. A minimum of 15 years of contributions are required for retirement at 65. Early retirement is possible with 30 years of contributions.

The social pension is payable from age 65.

Benefit calculation

Earnings-related

The pension accrues at 2% of the earnings base for each year of contributions for 20 or fewer years' contributions. 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 national minimum wage (EUR 385.90). Each slice of earnings accrues pensions at a different rate.

Earnings/minimum wage	≤ 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	2.0

Pension accrues for a maximum of 40 years.

The earnings measure is presently the best 10 of the final 15 years. However, this base is currently being extended, such that it will reach lifetime average earnings from 2017. Those already paying contributions by 31 December 2001 and who met the eligibility conditions for old-age pension at that date will have their pension calculated from the most favourable of three possible formulas: 1) applying the previous rules (2% accrual for each year of contributions and earnings being those of the best ten years of the final 15 years); 2) applying the new rules above described to the entire contributory career; 3) or *pro-rata* application of both rules according to the contributory career. Those already paying contributions by 31 December 2001, but who have not met the eligibility conditions for old-age pension at that date, will have their pension calculated from the most favourable of the above three possible formulas, if they retire between 2002 and 2016; or by the most favourable of formulas No. 2) and 3), if they retire after 2016. 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.

Valorisation of earnings for pension calculation from the beginning of 2002 is to a mix of earnings and prices. The weights are 75% price inflation and 25% earnings growth, subject to a maximum real increase of 0.5%.

Pensions in payment are indexed to prices, with larger increases on smaller pensions. In December 2006 the increases of pensions already in payment are: 3.1% for pensions not higher than EUR 596.79; 2.6% for those between EUR 596.79 and EUR 2 387.16; 2.4% for those between EUR 2 387.16 and EUR 4 774.32; and 0% for those equal or higher than EUR 4 774.32.

Minimum

For workers with up to 15 years of contributions there is a monthly minimum pension of EUR 223.24 from January to November 2006 and EUR 230.16 from December 2006. For workers with 15 to 40 years, the amount of the minimum pension varies between the lower limit of EUR 249.00 (January-November) and EUR 256.72 (December 2006 onwards-) and the upper limit of EUR 343.45 and EUR 354.10 for the same two periods, as described in the table below.

There are 14 monthly payments.

	Minimum pension (EUR)	
Years of contribution	January-November	December
15 to 20	249	256.72
21 to 30	274.76	283.28
31 and over	343.45	354.1

Targeted

For people who do not qualify for the earnings-related scheme, the monthly social pension was EUR 171.73 (January-November 2006) and EUR 177.05 (December-).

This is only paid if total income for a single person does not exceed 30% of the minimum wage or 50% of the minimum wage in case of couples. Again, there are 14 monthly payments.

Pensioners of the social pension are entitled to receive the Solidarity Extra Supplement on top of their pension (the monthly amount of this benefit being EUR 15.89 (EUR 16.38 after 1st December 2006) for those under 70 years old and EUR 31.77 (EUR 32.75 after 1st December 2006) for those with at least 70 years of age).

In the beginning of 2006, a new targeted benefit aimed at fighting poverty among the elderly came into effect: the Old-Age Solidarity Supplement (OSS). Eligibility conditions for this benefit are: 80 years of age or older in 2006 (extended in 2007 for those with 70 years of age or older and in 2008 to 65 years or older); receiving old-age or survivors pension (national citizens not entitled to the social pension because they don't fulfil its means test may also be eligible); and fulfilling the OSS means test.

The OSS 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 OSS is therefore equal to the difference between the beneficiary's income and the following Reference Amounts (RA):

- EUR 4 200 per year for singles;
- EUR 7 350 per year for couples;

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 OSS.

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 1st 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 4th tier are not eligible for the OSS.

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 RA and ≤ 5 x RA	10%
4th	> 5 x RA	exclusion

Minimum pension amounts and other social benefits will be linked to the IAS according to the following table:

Benefits	Amount (% IAS)
Minimum pension (earnings related)	
15 years of contributions	57.8
15 to 20 years of contributions	64.5
21 to 30 years of contributions	71.2
More than 30 years of contributions	89.0
Social pension	44.5

Variant careers

Early retirement

From August 2005 onwards, the early retirement scheme was suspended. Therefore, it is no longer possible to anticipate retirement except in the case of long term unemployment (see below under section "Unemployment").

Late retirement

It is possible to defer the pension until the age of 70. The benefit is increased by 12% per year of deferral to a maximum of five years.

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 3 years caring for children under 12 working part time can be treated as if these were 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 55 or over who are long-term unemployed can retire at age 60 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 55 with 20 years' contributions for individuals who become unemployed at age 50 or more. In these cases, the pension is reduced with a 4.5% annual decrement, with a maximum of five years' reduction applied.

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.

Personal income tax and social security contributions

Taxation of pensioners

There is a special tax allowance for pensioners of EUR 7 500. There is an additional allowance for disabled people.

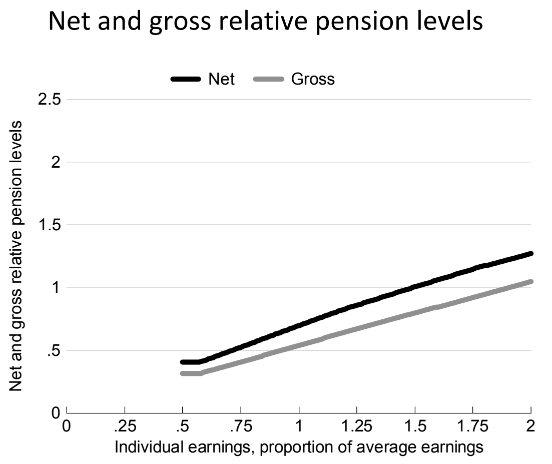
Taxation of pension income

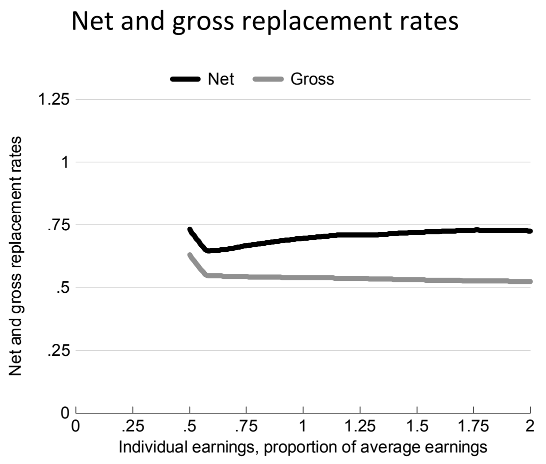
There is no special relief for pension income.

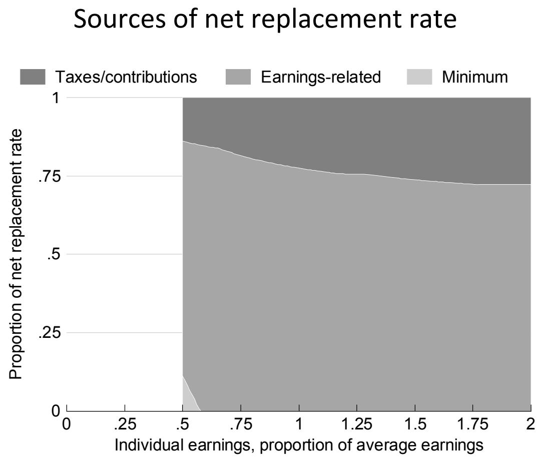
Social security contributions paid by pensioners

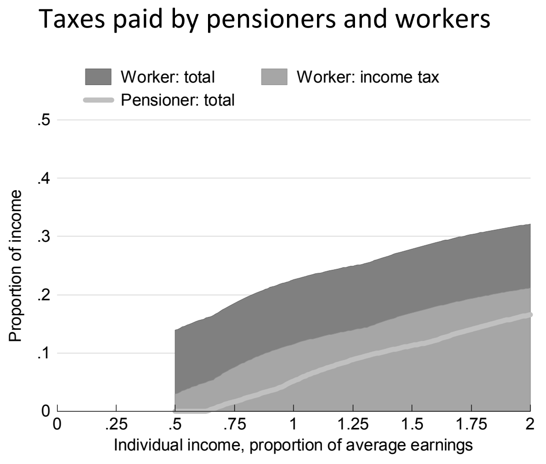
Pensions are exempt from social contributions. Workers age over 65 with 40 years' contributions pay a reduced social contribution tax: 17.9% for the employer and 8.3% for the employee.

Pension modelling results: Portugal









Men *Women* (where different)	*Median earner*	*Individual earnings, multiple of average*				
		0.5	*0.75*	*1*	*1.5*	*2*
Gross relative pension level (% average gross earnings)	46.0	31.5	40.7	53.9	79.6	104.8
Net relative pension level (% net average earnings)	59.4	40.7	52.6	69.6	100.5	127.2
Gross replacement rate (% individual gross earnings)	54.1	63.0	54.3	53.9	53.1	52.4
Net replacement rate (% individual net earnings)	68.0	73.2	66.7	69.6	72.0	72.6
Gross pension wealth (multiple of average gross earnings)	8.1 *9.5*	9.2 *10.7*	7.9 *9.2*	8.1 *9.5*	8.0 *9.3*	7.9 *9.2*
Net pension wealth (multiple of average net earnings)	8.1 *9.5*	9.2 *10.7*	7.9 *9.2*	8.1 *9.5*	7.8 *9.1*	7.4 *8.7*