Structure of the Portugal Pension Review

Four thematic chapters

• First layer of social protection in old age

• Earnings-related mandatory pensions

• Voluntary pension arrangements

• Labour market developments and pensions

Each chapter concludes with some policy recommendations
Relative income of older people in Portugal is well above the OECD average

Gross average income of people aged over 65, % of total population average income, 2014 or latest available year

Figure 3.9

Relative old-age poverty is below average

Relative old-age poverty, 2015, less than half median income

Figure 2.1
Relative old-age poverty is below average, but income inequality is high

Relative old-age poverty, 2015, less than half median income

Gini coefficient, after taxes and transfers, 2015

Substantial pension reforms in Portugal over the last two decades

Main reforms affected different areas:
- Reference period (1993, 1999)
- Retirement age (1999, 2014)
- Civil service (1999, 2006)

Main outcomes:
- Higher safety net levels
- More incentives to work longer in line with life expectancy gains
- Lower benefits: reference period, uprating past wages, sustainability factor
- Improved financial sustainability
- Long transition to eliminate the civil-servant special regime
- Overall complexity
Retirement age is linked to life expectancy

Statutory retirement age in Portugal

Figure 3.17

Retirement age is linked to life expectancy

Statutory retirement age and normal retirement age after a full career in Portugal

Figure 3.17
Retirement age is linked to life expectancy

Normal retirement ages, full career from age 20, Portugal vs OECD average

![Graph showing normal retirement ages from 2000 to 2015 for Portugal and OECD average.](image)

Replacement rates are high for full-career workers compared with other countries

Future gross replacement rates, workers with a full career from age 20, mandatory schemes, %

![Graph showing future gross replacement rates for Portugal and other countries.](image)
Accrual rates are complex and high

Average annual accrual rate over career length, average-wage worker

Future average accrual rate, average earners

Sustainability factor

Adjustment factors in other countries

- Automatic links of benefits to life expectancy in defined contribution schemes, whether funded or notional (Italy, Latvia, Norway, Poland, Sweden)
- Similar mechanism in defined benefit schemes (Finland, Japan, Spain)
- Automatic adjustment rules to changes in dependency ratios or pension finances (Germany, Japan, Spain, Sweden)

Portugal's sustainability factor

- 2007: introduction to adjust the initial benefit level for new retirees to rising life expectancy
- 2014: abolishment for retirement at the normal retirement age
- Implication: now only affects early retirement, with a huge and increasing impact on benefits on top of the standard penalties
Coverage of private pension plans is lower than other OECD countries

Occupational plans - active members as % of working-age population

Personal plans - active members as % of working-age population

Recipients of first-tier pensions, % of population 65+

Figure 2.18
Only the highest minimum pension exceeds the CSI

Minimum pension, social pension and CSI as a % of the average wage

Safety nets / Non-contributory benefits

- Simplify, to avoid having multiple instruments with similar objectives - in particular by merging the social pension, the CES supplement and the CSI while removing the CSI’s means-testing to descendants

- Lower the minimum contribution period of 15 years for the minimum pension and ensure that each additional year of contribution results in a higher benefit
Earnings-related pensions

- Duly implement the link between the statutory retirement age and changes in life expectancy, and extend it to the minimum age of early retirement

- Reform the sustainability factor to adjust pension benefit across the board as an ultimate instrument to ensure financial sustainability

- Lower accrual rates and uprate past wages with wage growth

Voluntary funded pension system

- Increase coverage by improving incentives to contribute to voluntary pension schemes and promoting occupational plans
  - Simplifying the pension tax system
  - Introducing non-tax financial incentives
  - Promoting occupational plans

- Improve withdrawal settings from personal plans
  - Limit early withdrawals from Retirement Savings Plans (PPRs)
  - Align retirement age rules with statutory retirement ages
  - Discourage taking sizeable retirement savings as lump sums

- Improve regulation
  - Update assumptions around the minimum funding ratio calculation
  - Develop Portuguese mortality tables
Further information:  
http://oe.cd/pensions-portugal-2019

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OECD flagship pension publications:  
Pensions at a Glance  
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Thank you