Portugal

Portugal: Pension system in 2012

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

Key indicators

		Portugal	OECD
Average worker earnings (AW)	EUR	15 700	32 400
	USD	20 700	42 700
Public pension spending	% of GDP	12.3	7.8
Life expectancy	At birth	79.8	79.9
	At age 65	18.9	19.1
Population over age 65	% of working-age population	30.1	25.5

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Qualifying conditions

The standard pension age is 65.

The social pension is payable from age 65. Typically, every year in July and December pensioners receive an additional amount equal to their monthly pension. However, under the Economic Adjustment Programme for Portugal (PAEF) a temporary suspension of the 13th and 14th months' pensions has been implemented in 2012 while protecting the lowest pensions. In addition, a progressive Extraordinary Solidarity Contribution (CES) was implemented of pension income over EUR 600 per month. The 13th and 14th months' pensions were reintroduced in 2013.

Benefit calculation

Earnings-related

The pension amounts are calculated according to the following formula:

Pension amount = reference earnings × accrual rate × 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 the housing 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 will be reassessed after 31 December 2011.

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 in 2012). 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	2.0

The earnings measure was the best 10 of the final 15 years. Presently, this base is 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 3 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 3 possible formulas, if they retire between 2002 and 2016; or by the most favourable of formulas No. 2) and 3), if they retire after 31 December 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.

The sustainability factor is an adequacy factor of the pensions system to the demographic changes; this factor results from the relation between the average life expectancy at age 65 in 2006 and the one that will occur in the year before the pension claim. The sustainability factor considered is the one verified in the year of the old-age pension beginning or at the date of the invalidity pension conversion into an old-age pension; this factor applies to old-age pensions beginning from 1 January 2008 and to old-age pensions resulting from the conversion of invalidity pensions (it is applied at the date of conversion, 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 2012 was 3.92%.

For pensioners with a monthly pension amount between EUR 600 and EUR 1 100, the 13th and 14th month pension amount is given by the formula:

Pension amount (13th and 14th months) = EUR 1 320 – 3.2 × monthly pension amount

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 2012.

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 and equals 25% of pension income between 12 × IAS and 18 × IAS plus 50% of pension income above 18 × IAS.

Minimum

There is a monthly minimum pension for the contributory scheme with values varying according to the length of contributory career, as shown in the table below. There are 14 monthly payments.

Years of contribution	EUR
< 15	254.00
15 to 20	274.79
21 to 30	303.23
31 and over	379.04

When the pension amount calculated according to the general rules is lower than the guaranteed minimum amount, it will be increased by the so-called social supplement whose value is equal to the difference between the guaranteed minimum amount and the statutory or legal pension amount.

The social supplement granting is not subject to assets or residence test.

Targeted

For people aged 65 or more who do not qualify for the earnings-related scheme, the monthly social pension was EUR 195.40 in 2012.

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 on top of their pension. The monthly amount of this benefit is EUR 17.54 for those under 70 years old and EUR 35.06 for those with at least 70 years of age.

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 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):

- EUR 5 022.00 per year for singles.
- EUR 8 788.50 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 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 × RA	0
2nd	> 2.5 × RA and ≤ 3.5 × RA	5
3rd	> 3.5 × RA and ≤ 5 × RA	10
4th	> 5 × RA	Exclusion from SSE

Variant careers

Early retirement

Early retirement has been suspended until 2014. Early retirement was previously possible if the insured person has at least 55 years of age and 30 calendar years with earnings registration.

When the insured person claims the pension before 65 years of age under the scheme for rendering pensionable age flexible, it is applied a reduction rate of 0.5% for each month of anticipation until that age. Nevertheless, the number of anticipation months will be reduced by 12 months for each period of three years that exceeds those 30 calendar years

The number of anticipation months is determined between the date of anticipated pension claim and the date when the insured person completes 65 years of age. 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 reaches 65 years of age, or the date of pension beginning if this occurs before that age.

Late retirement

If the insured person claims the old-age pension when he/she is older than 65 years and has at least 15 calendar years with earnings registration relevant to the pension calculation, 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 65 years of age. The working age limit is 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	0.50
	35 to 39	0.65
	More than 40	1.00

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.

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 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.

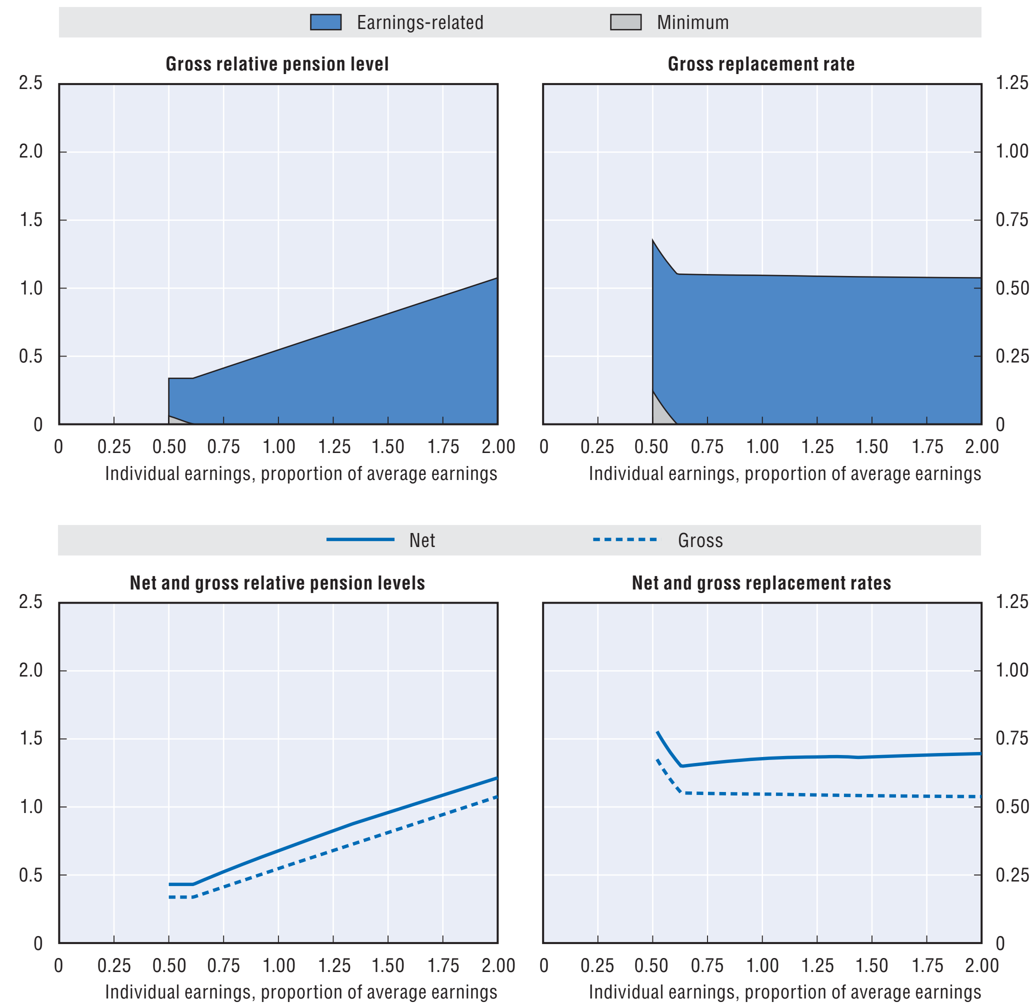
There are special rules applying to people in long-term unemployment. People aged 57 or over who are long-term unemployed can retire at age 62 with full pension without decrement. It is required that the minimum contribution conditions are met and unemployment-benefit entitlement is exhausted.

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.

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 is 65 years old.

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.

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	38.0	33.8	41.2	54.7	81.2	107.6
(% average gross earnings)						
Net relative pension level	48.5	43.1	52.6	69.7	99.3	125.4
(% net average earnings)						
Gross replacement rate	55.0	67.5	55.0	54.7	54.1	53.8
(% individual gross earnings)						
Net replacement rate	65.6	77.7	66.3	67.8	68.4	69.6
(% individual net earnings)						
Gross pension wealth	7.6	9.7	7.6	7.6	8.1	8.1
(multiple of individual gross earnings)	*8.8*	*11.2*	*8.8*	*8.8*	*9.1*	*9.1*
Net pension wealth	7.6	9.7	7.6	7.3	7.5	7.1
(multiple of individual gross earnings)	*8.8*	*11.2*	*8.8*	*8.5*	*8.4*	*8.0*

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