

# Pensions at a Glance 2023



# Spain

## Spain: Pension system in 2022

The Spanish public pension system consists of an earnings-related scheme, with a minimum contributory pension.

### Key Indicators: Spain

|                              |                             | Spain  | OECD   |
|------------------------------|-----------------------------|--------|--------|
| Average worker earnings (AW) | EUR                         | 28 360 | 39 152 |
|                              | USD                         | 29 865 | 41 228 |
| Public pension spending      | % of GDP                    | 11.3   | 7.7    |
| Life expectancy              | at birth                    | 83.9   | 80.7   |
|                              | at age 65                   | 86.6   | 84.6   |
| Population over age 65       | % of working-age population | 33.4   | 31.3   |

## Qualifying conditions

The retirement age for a full pension (without actuarial reduction) is 66 years and two months in 2022, increasing to 67 years in 2027. However, the retirement age is reduced to 65 if an individual has at least 37 years and six months of contributions in 2022, increasing to 38.5 years of contributions by 2027. It is necessary to have 15 years of contributions to qualify for a pension benefit.

## Benefit calculation

### *Earnings-related*

The accrual rate is 50% after 15 years and reaches the maximum 100% after 37 years (from year 16 onwards every additional month of contributions increases the accrual by 0.19% per month from months 1 to 248, and 0.18% per month thereafter).

Law 21/2021 of 28 December 2021 reintroduced price indexation. Pensions will be revalued at the beginning of each year to the average value of the interannual variation rates expressed as a percentage of the Consumer Price Index for the twelve months prior to December of the previous year. Consequently, the Budget Law for the year 2023 incorporated a revaluation of pensions for that year of 8.5%.

The “intergenerational equity mechanism” (MEI) has been established to ensure that annual increases in retirement, survivor, and disability benefits can continue to be indexed to increases in the consumer price index. To finance future spending and build up the public reserve fund, employees and employers pay a special contribution from 1 January 2023, until 31 December 2050. The employee and employer special contribution rates are 0.1 percent and 0.5 percent of monthly covered earnings/payroll, respectively, and will increase gradually to 0.2 percent and 1.0 percent, respectively, by 2029.

The earnings base is the most beneficial of the last 25 annual earnings, uprated in line with prices, apart from the last two years which are not uprated. From 1 January 2026, the calculation of the regulatory base of the retirement pension will increase progressively, from the current last 25 years, up to 29 years (with the two worst years being discarded), with the possibility of choosing between the previous calculation of

25 years and the new calculation that will increase the number of years to the aforementioned 29. From 2044 onwards only the second method will apply. For periods of missing contributions within the last 25 years prior to retirement the minimum base is used, equivalent to EUR 1 166.7 per month in 2022. For missing periods exceeding four years 50% of the minimum base is used. Price-uprating of past wages means that the maximum projected replacement rate relative to final salary is less than 100% given positive real-wage growth.

There is a maximum contribution base to earnings for contributions and benefit purposes of EUR 49 673 in 2022. This base will be gradually increased by 1.2 p.p. above inflation each year between 2024 and 2050.

A new solidarity contribution is being established on the part of earnings exceeding the maximum contribution base for which no pension entitlements are built up. From 2025, the new contribution equals 0.92% of the part of the salary between 100% and 110% of the maximum contribution base, 1% between 110% and 150% and 1.17% above 150%. These rates will gradually increase to reach 5.5%, 6% and 7% in 2045, respectively.

### ***Minimum and maximum***

There is a minimum pension benefit payable from age 65 equal to EUR 721.70 per month for single pensioners and EUR 890.50 per month for pensioners with a dependent spouse. There are 14 payments per year. There is also a minimum pension benefit equal to EUR 834.90 per month for widows with children and a minimum pension benefit for orphans.

The maximum pension is EUR 2 819.18 per month in 2022 with 14 payments per year. From 2025, the maximum pension will be revalued by the change in the Consumer Price Index (IPC) for the twelve months prior to December of the previous year plus an additional increase of 0.115 cumulative percentage points each year until 2050. From 2051, the additional annual increase applicable to determine the maximum initial amount of pensions from that year until 2065 is 3.2 p.p. above inflation in 2051 to 20 p.p. in 2065. The maximum pension is subsequently scheduled to increase from 3.2 p.p. above inflation in 2051 to 20 p.p. in 2065.

## **Variant careers**

### ***Early retirement***

Early retirement is possible four years before the retirement age in the case of involuntary unemployment and 33 years of contributions, and two years before the legal retirement age in the case of voluntary unemployment and 35 years of contributions. The actuarial reduction on pension benefits for early retirement varies monthly depending on the length of contributions.

The minimum pension for early retirees is EUR 675.20 per month for pensioners without a dependent spouse, and EUR 834.90 per month for pensioners with a dependent spouse. The minimum benefit increases after age 65.

Partial retirement is possible from age 62 years and two months in 2022, if a new employee has been hired to work the missing hours. In 2027, once the reform is completed, partial retirement will be possible at 63 with 36 years and six months of contributions, or 65 years with more than 33 contributed years and less than 36 years and six months). Both the new and the partially retired employee will contribute fully to the pension system.

### ***Late retirement***

Workers can choose between either an additional 4 percent credit or a lump sum amount for each full year of effective work between the date of reaching retirement age and the date of actual retirement, or a

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combination of the two. The lump sum was between a minimum of EUR 4 786.27 and a maximum of approximately EUR 12 060.12 for those retiring in 2022.

From 67 there is also the possibility of combining partial pension and part-time employment. In this case, there is no obligation to have someone else replace the remaining working hours.

Since March 2013, it is possible for individuals above the normal retirement age to combine retirement benefit receipt and work. However, in these cases the amount of the pension benefit is reduced by 50%.

### ***Childcare***

The benefit for birth and care of a minor, in the event of childbirth, has a duration of 16 weeks for each parent, of which the 6 weeks immediately after the childbirth are mandatory.

Three years leave of absence caring for children are credited for retirement pension, permanent incapacity pension, widows and orphanage pensions.

In case of maternity, a supplement was applied to contributory pensions for retirement, widowhood and permanent disability as of 1 January 2016. Royal Decree-Law 3/2021 of 2 February 2021 adopted measures to reduce the gender gap and other matters in the areas of Social Security and economics, introducing the benefit for the reduction of the gender gap, which replaced the previous "maternity supplement" to compensate for the damage to women's careers. For 2022, it has been established at EUR 28 per month with 14 payments (EUR 392 per year), for each child up to a maximum of four.

The new benefit complies with the agreements reached in the framework of the social dialogue with the social agents and will be in force as long as the gender gap in pensions is greater than 5%.

### ***Unemployment***

During periods of unemployment-benefit receipt the government pays the employers' contribution and the worker pays the employee's contribution. The base salary for contributions is the average salary in the six months prior to the unemployment period. The duration of the unemployment benefit depends on the number of contributed days during the past six years, varying between four months and two years. The unemployment assistance which is paid thereafter does not create any pension credits except for individuals aged 52 years or over whose contributions are paid by the government until they reach the retirement age. These contributions are levied on 125% of the minimum base.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

Pension benefits are taxed. A new tax rule allows pensioners with low pension benefits not to pay taxes in advance every month.

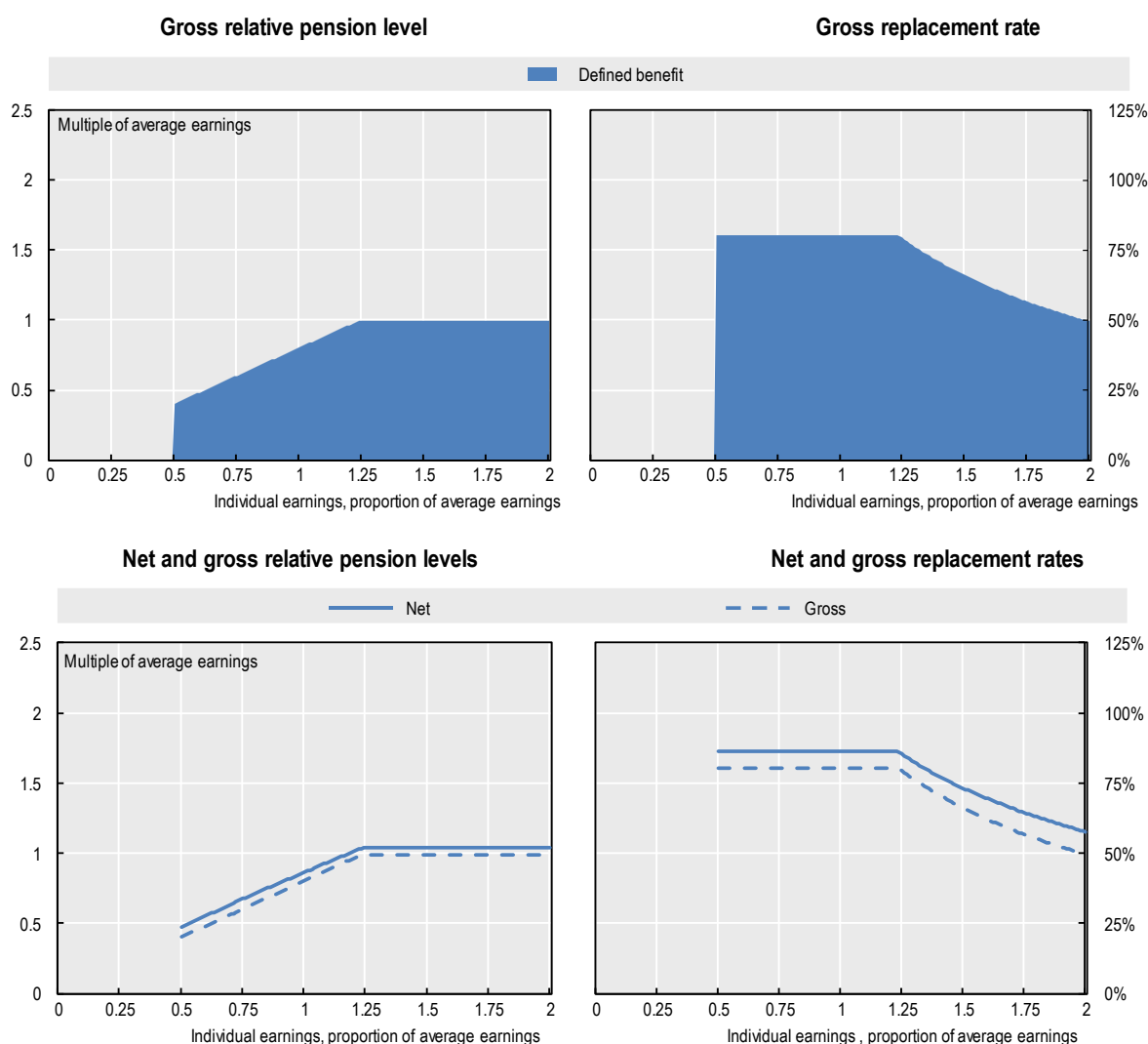
### ***Taxation of pension income***

There are no special allowances for pension income, but there are reductions for people aged over 65 years, with larger reductions for individuals aged 75 or above.

### ***Social security contributions paid by pensioners***

Social security contributions are not levied on pension income.

## Pension modelling results: Spain in 2065 retirement at age 65



|                                         | Individual earnings, multiple of average |      |      |       |       |       |
|-----------------------------------------|------------------------------------------|------|------|-------|-------|-------|
|                                         | 0.5                                      | 0.75 | 1    | 1.5   | 2     | 3     |
| Men                                     |                                          |      |      |       |       |       |
| Women (where different)                 |                                          |      |      |       |       |       |
| Gross relative pension level            | 40.2                                     | 60.3 | 80.4 | 99.1  | 99.1  | 99.1  |
| (% average gross earnings)              |                                          |      |      |       |       |       |
| Net relative pension level              | 47.4                                     | 67.5 | 86.5 | 103.7 | 103.7 | 103.7 |
| (% net average earnings)                |                                          |      |      |       |       |       |
| Gross replacement rate                  | 80.4                                     | 80.4 | 80.4 | 66.1  | 49.6  | 33.0  |
| (% individual gross earnings)           |                                          |      |      |       |       |       |
| Net replacement rate                    | 86.4                                     | 86.3 | 86.5 | 73.2  | 57.6  | 41.4  |
| (% individual net earnings)             |                                          |      |      |       |       |       |
| Gross pension wealth                    | 20.1                                     | 20.1 | 20.1 | 16.5  | 12.4  | 8.3   |
| (multiple of individual gross earnings) | 22.7                                     | 22.7 | 22.7 | 18.7  | 14.0  | 9.3   |
| Net pension wealth                      | 21.6                                     | 21.6 | 21.6 | 18.3  | 14.4  | 10.3  |
| (multiple of individual net earnings)   | 24.4                                     | 24.4 | 24.4 | 20.7  | 16.3  | 11.7  |

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.