Pensions at a Glance 2019

How does SPAIN compare?

27 November 2019

Key findings

- Population ageing will accelerate at a very fast pace in Spain, which is projected to have among the highest old-age to working-age ratio in the OECD in 2050, putting strong pressure on financial sustainability.
- The measures that were decided in 2013 to improve financial sustainability – the Revalorisation Pensions Index and the sustainability factor – have been suspended.
- Future net replacement rates for low-wage and average-wage full-career workers will be 79% and 83% based on current legislation, against 68% and 59%, respectively, on average in the OECD.
- A 5-year career break does not influence future pension benefits compared to the full-career scenario, as full benefits in the earnings-related scheme are reached after 38.5 years of contributions. However, a 10-year career break would lead to lower pension benefits in Spain, albeit with a smaller impact than for the OECD on average.
- Self-employed workers have a lower mandatory pension contribution base than employees and are expected to receive much lower benefits.
- Improving pension prospects for all calls for all earnings to be treated in the same way for pensions and, in particular, the self-employed should pay contributions based on the actual rather than declared income.

Replacement rates are high for dependent workers but low for the self-employed

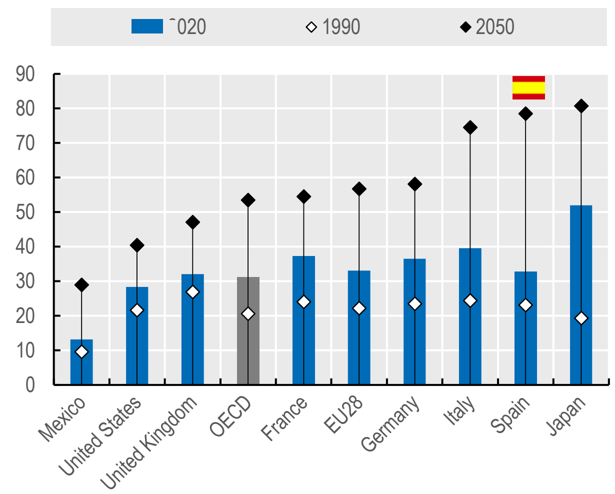
Population ageing will accelerate sharply in Spain. According to UN projections, there will be 78 people above age 65 per 100 people aged 20-64 in 2050 against 33 currently, and 53 and 31 in the OECD on average. However, Eurostat projections show a smaller increase. Ageing trends will continue to put pressure on the Spanish pension system.

Measures decided in 2013 to ensure or at least improve financial sustainability were suspended. This includes the Revalorisation Pensions Index (IRP), which indexed pensions in payments since 2014 based on the financial balance of pensions and of the Social Security system. Pensions in payment were increased in line with the CPI at 1.6% in both 2018 and 2019 while they would have only increased by 0.25% had the IRP formula been applied. The sustainability factor, which was supposed to start being applied in January 2019 to adjust initial pensions – when retiring – based on changes in life expectancy, was suspended until 2023. A commission will determine how to revise or replaced both the IRP and the sustainability factor.

People older than 65 in Spain currently have an average disposable income equal to 95% of the total population, higher than the OECD average at 87%. The pension system will continue to deliver relatively high replacement rates even if the sustainability factor is reinstated, especially for average- and high-wage earners. For full-career average-wage workers net replacement rates from mandatory schemes will be 83%, compared with 59% in the OECD on average. For high- and low-wage earners, replacement rates will be similar, at 83% and 79%, respectively, against 55% and 68% in the OECD.

Population ageing will accelerate sharply in Spain

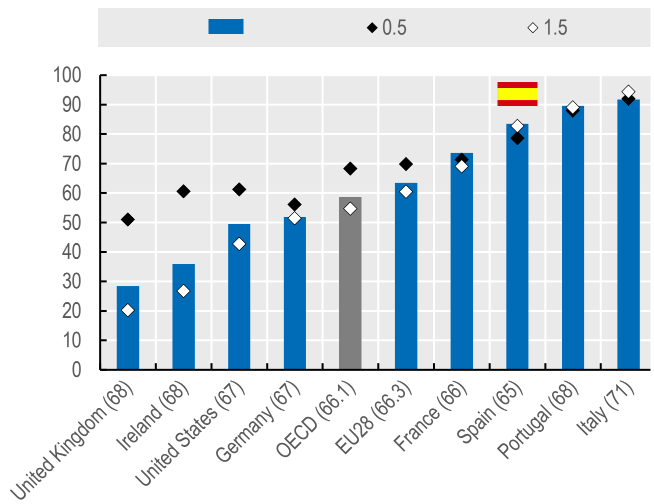
Number of people older than 65 years per 100 people of working-age (20-64)



Source: [Table 6.2].

Spain has high projected replacement rates for full-career workers

Net pension replacement rates, by multiples of the average wage



Source: [Table 5.5]. Note: Future retirement age in brackets.

The statutory retirement age, currently set at 65.5 years, will gradually increase to 67 by 2027. However, from 2027 people who will have contributed for at least 38.5 years (against 36.5 years today) will still be able to retire at age 65 with a full pension, which is therefore the normal retirement age in the OECD baseline case of a full career from age 22. Despite fast ageing prospects, this future normal retirement age is below the OECD average of 66.1 years for men and 65.7 for women, and substantially lower than projected in Denmark (74), Estonia (71), Italy (71) and the Netherlands (71).

Employment rates in Spain fall quickly with age at older ages and are below the OECD average for all age groups between 55 and 69. This is reflected in the very low average effective age of labour market exit. At 62 for men and 61 for women in Spain this is three years below the OECD average.

Recent labour market developments may challenge the income adequacy of future retirees. High persistent unemployment weakens the accumulation of pension entitlements for many working-age people. Moreover, in Spain especially, many employees have temporary contracts (more than one in four in Spain) or are self-employed (about one in six), thereby increasing the risk of ending up with insufficient pension benefits.

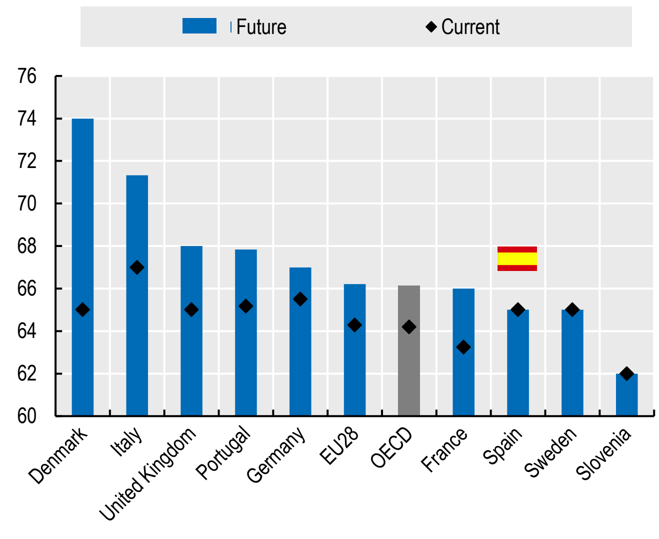
In Spain, individuals with very short careers do not earn pension rights as 15 years of work are required to qualify for a regular pension benefit. However, the accrual rate of 50% for these first 15 years – once completed – is generous, thereby offering good protection against incomplete careers. A 5-year career break does not influence pension benefits compared to the full-career scenario, as full benefits in the earnings-related scheme are reached after 38.5 years of contributions. For the OECD on average, a 5-year unemployment spell leads to a pension reduction of 6.3% in mandatory schemes. However, a 10-year career break would lead to lower pension benefits in Spain, albeit with a smaller impact than for the OECD on average.

A median full-time self-employed worker in Spain earns 69% of the median full-time dependent worker, compared to 84% in the OECD on average. In addition, pension benefits for the self-employed can be low because they are allowed to contribute less than employees. In Spain, like in Poland and Turkey, the self-employed are only obliged to make flat-rate contributions to the earnings-related scheme. The self-employed can choose the contribution base freely as long as it is higher than a minimum threshold (42% of average wage), without any relation to actual income. They then pay the same total contribution rate applying to employees. More than 70% of the self-employed pay only compulsory minimum pension contributions in Spain, and income underreporting seems to be widespread.

In countries where the self-employed are not required to fully contribute to earning-related pension schemes while employees are, the relative theoretical pension is among the lowest. In the full-career case, the theoretical future pension of the self-employed in Spain is 42% of the pension of employees with similar earnings; only Japan, Mexico and the Netherlands score lower. On average the relative theoretical pension benefit of the self-employed is 79% of the employees' benefit in the OECD.

Normal retirement age

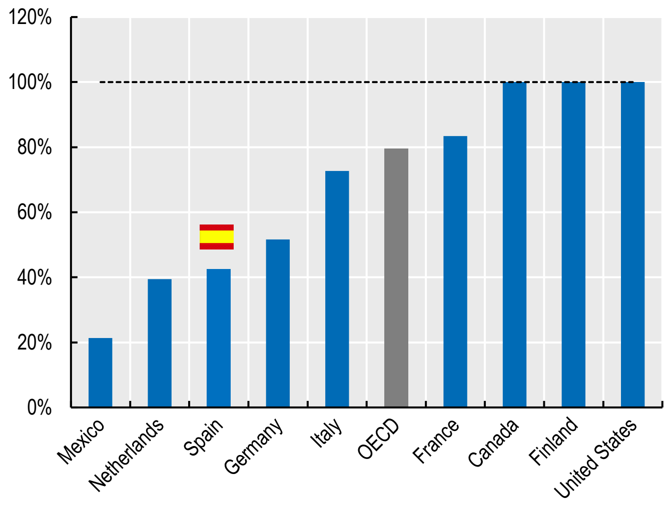
Normal retirement age for men entering the labour market at age 22 with a full career



Source: [Figure 4.6].

The self-employed can expect lower pensions

Future pensions of the self-employed relative to those of employees' with similar earnings



Source: [Figure 2.13].

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