Executive summary

Analysis of the Social Security and Civil Servants Pension Agency budget outturn in 2014

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Social Security budget outturn in 2014

In 2014, Social Security recorded a surplus of 732 million euros (M€), net of European Social Fund transfers, which represents an increase of 278 M€ compared to the previous year. The outcome reflects a positive contribution of expenditure (which decreased 2%), mainly explained by the decline in spending on unemployment benefits. Revenue fell by 0.9% compared to 2013, as a result of a decrease in State Budget transfers, to comply with the Social Security Framework Law (down by 153 M€) and to finance the deficit of the pay-as-you-go regime of the Previdential System (down by 101 M€), which more than offset the increase in social contributions (236 M€).

Although Social Security's fiscal balance was higher than forecasted in the initial budget (by 402 M€), the result was 138 M€ lower than expected in the 2nd amending budget, net of European Social Fund transfers. Revenue was lower than the last estimate (-356 M€) due to the performance of contributions and the fall in State Budget transfers, which was only partially offset by an improved expenditure outturn (- 218 M€).

Excluding the State Budget extraordinary transfer, which amounted to 1329 M€ in 2014, the Previdential System continued to record a deficit of 699 M€. However, this outcome reflects a positive change compared to the 2nd amending budget forecast for 2014 and to the previous year, reverting the trend observed in recent years.

Civil Servants Pension Agency budget outturn in 2014

The Civil Servants Pension Scheme recorded a budget deficit of 65 M€, similar to that of 2013, as revenue and expenditure grew at the same rate. Growth in effective revenue was driven by an increase in contributions, reflecting policy measures such as the increase in the employers' contribution rate and the change of the Extraordinary Solidarity Contribution.

On the expenditure side, current transfers grew at a slower pace compared to previous years. The quantity effect was the main driver of this expenditure item, reflecting the sharp growth in the number of new pensioners. This behaviour suggests that the increase in the retirement age and reinforced disincentives on early retirement introduced in 2014 had a limited impact on the number of new retirement pensions.

The Civil Servants Pension Agency's deficit was 89 M€ lower than what was budgeted (2nd amending budget). This was mainly due to the evolution of property income of the reserve funds managed by this agency.

For 2015, the Social Security expects a recovery in revenue from social contributions. Nonetheless, this revenue's less favourable performance in 2014 makes the nominal goal set out in the 2015 State Budget more challenging. Since the forecasted growth in contributions exceeds the forecast for wage growth, efforts to fight contributory fraud and evasion and the developments in the labour market will be decisive factors to accomplish the goals set for revenue and the deficit reduction forecast for the Previdential System. However, the risks on the revenue side may be mitigated by the positive impact of a lower than estimated expenditure with unemployment benefits in 2014, combined with the expectation that it maintains its downward trend, in line with the unemployment rate projections. However, worth mentioning is the fact that the SB/2015 reflected a fiscal consolidation measure in the amount of 100 M€ that has still not been implemented.

As was the case in 2014, budgetary developments in the Civil Servants Pension Scheme in 2015 will depend on the combined effect of measures with opposite signs, which affect both the system's revenue and expenditure. On the revenue side, the increase in the contribution base due to the partial replacement of wage cuts may be offset by the decrease in the number of contributors, given that the system has been closed to new members since 2005. Expenditure should continue to grow reflecting the progressive rise in the number of pensioners, but this impact may be mitigated by the effect of the change occurred in 2014 in the sustainability factor applied to new pensions.