Executive Summary

Analysis of the Social Security and Civil Servants Pension Agency budget outturn in 2015

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Social Security budget outturn in 2015

Excluding the impact of the European Social Fund (ESF), the Social Security budget balance improved by 284 M€ compared to 2014 achieving a surplus of 1,032 M€. This outcome was the result of an 830 M€ balance in the Previdential System, plus the contribution of the Citizenship Social Protection System where the balance was 202 M€.

Also excluding the extraordinary State Budget transfer to the Previdential System, the Social Security System achieved a surplus of 137 M€. This outcome reflects a 627 M€ improvement in the Previdential System, although it still recorded a deficit of 65 M€. The largest positive change was in the Pay-as-you-go Insurance System, where the budget deficit net of both the aforesaid transfers went from 1022 M€ to 447 M€. This outcome is a significant improvement, due mainly to the favourable labour market developments.

In 2015, adjusting forthe ESF transfer, Social Security revenue grew by 0.6%, a much smaller increase than forecast in the Social Security Budget (2.7%). This outcome reflects the performance of social contributions revenue and transfers from the State Budget (SB), which in the case of the former confirms the estimate in the Social Security Bugdet (SSB/2015) was over optimistic. However, it should be noted that in 2015 there was a strong recovery in revenue from employees' and employers' contributions, which returned to pre-crisis levels.

On the expenditure side, after adjusting for the impact of the ESF, 2015 recorded a drop of 0.7% compared to 2014, whereas the budget had estimated an increase of 2.1%. The forecast was anchored on an expectation of an increase in some budget items that did not occur. Spending on social transfers was expected to fall by 1.1%, but actually fell by 2.7%, mainly due to the favourable evolution of spending on unemployment benefits Pensions expenditure had also a favourable development (down 1.3%), and fell short of the figure forecast in the SSB/2015.

Civil Servants Pension Scheme budget outturn in 2015

The Civil Servants Pension Scheme (CGA) budget balance improved in 2015, reversing the deficit recorded the previous year. The 31 M€ surplus compares favourably with the 137 M€ deficit forecast in the SB /2015, above all because expenditure was lower than estimated while revenue also performed better than expected.

CGA effective revenue increased by 3.1%, due to a sharp increase in the State Budget transfer more than offsetting the 2.9% drop in contributions revenue, which is explained in general by the lower revenue from the Extraordinary Social Contribution (- 439 M€), and by the decline in the number of subscribers of the system (down by 11 080 compared to the end of

2014). The negative impact of these two effects was partially compensated by the increase in earnings subject to contributions following the partial restoring of the civil service pay cut.

Effective CGA expenditure increased 2.1% compared to 2014, a lower change than expected in the SB/2015 (+3.3%), leading to a favourable deviation of 117 M€. The increase in spending was driven by pensions and benefits payable by the CGA, which contributed 1.6 p.p. to the rise. Note that in 2015 the number of pensioners exceeded the number of subscribers, a fact that contributes to the intrinsic imbalance in this closed social protection system.

2016 Budget

The SSB/2016 foresees a slight improvement in the budget balance (+87 M€), which reflects a favourable outlook in the labour market that will impact on contributions (+811 M€) and unemployment and job support benefits (-152 M€). If that development is confirmed it will allow the Previdential System to be less dependent upon extraordinary State Budget transfers (a 241 M€ decrease). Nonetheless, overall State transfers shall increase (125 M€), mainly to comply with the Social Security Framework Law, as the result of an increase in non-contributory expenditure. In 2016 expenditure should again rise, driven by the increase in pension costs (+478 M€). With the exception of sickness and unemployment benefits, the expenditure of all social benefits should increase, as a result, among other causes, of the of the update of several benefits, particularly pensions.

As for the CGA, the SB/2016 foresees a slight deterioration in the budget balance, although it should maintain a surplus. The expected rise in revenue flows from the increase in State Budget transfers as well as from greater revenue from property income (+43 M€). Contributions should continue to decline (-0.3%) as a result of impacts in opposite directions: a fall in revenue of 51,6% from the Extraordinary Social Contribution, given that the rate has been halved, and an increase in contributions revenue, due to the full restoring of the salary cut. Effective CGA spending should increase by 0.6% due to pensions and allowances. This increase will be driven by a 0.4% update in pensions under 628.82€ per month, and the expected development the number of new pensions (around 14,000) which should be lower than in the previous year (16,198).