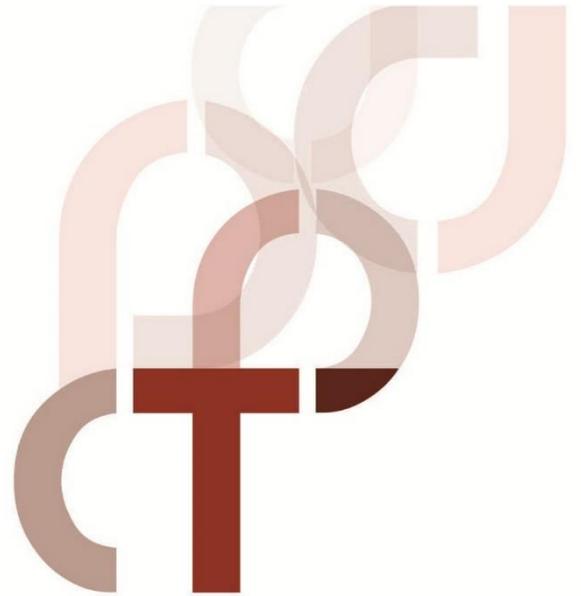


# **Executive Summary**



## Analysis of the Social Security and Civil Servants Pension Agency budget outturn in 2016

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## EXECUTIVE SUMMARY

### *Social Security Budget Outturn in 2016*

Excluding the impact of the European Social Fund (ESF), Social Security recorded a budget surplus of 1532 M€, reflecting an improvement of 492 M€ over 2015. Both the Contributory Social Insurance System and the Citizenship Social Protection System had a significant positive performance, thus contributing to the overall surplus.

Excluding the extraordinary State Budget transfer to the Insurance System, the Social Security surplus was 883 M€ in 2016. This outcome reflects a 559 M€ improvement in the Insurance System, where there was a budget surplus of 494 M€. The Pay-as-you-go Insurance System balance, net of State Budget and ESF transfers, explains most of the favourable change, going from a deficit of 447 M€ in 2015 to a surplus of 52 M€ in 2016.

Setting aside the European Social Fund transfer, Social Security revenue grew by 3.2%, a change approaching the forecast included in the Social Security Budget -3.4%. That outcome was mainly due to the performance of contributions where the provisional outturn is slightly lower (-67 M€) than forecast in SBB/2017.

The growth in expenditure, net of the European Social Fund effect, proved to be lower than forecasted in Social Security Budget for 2016. In 2016, expenditure was 1.2% higher than in 2015, which was 2.2 p.p. below the forecast (3.4%). Social benefits expenditure recorded a growth of 1.3%, which was lower than the 2.5% forecasted, reflecting the performance of unemployment benefit, social assistance and pension expenditure. Pension expenditure recorded an increase of 2.4%, which fell short of the rise predicted in Social Security Budget (3%).

### *Civil Servants Pension Agency Budget Outturn in 2016*

The Civil Servants Pension Scheme (CGA) recorded a budget surplus of 87 M€ in 2016 since revenue exceeded expenditure. Compared to the previous year, the balance increased (+55 M€) which ran counter to the SB/2016 forecast (-20 M€). This favourable deviation is explained by the fact that both expenditure and revenue performed better than predicted.

Civil Servants Pension Scheme effective revenue growth decelerated from 3.1% in 2015 to 0.7% in 2016, but was higher than the implicit increase in the State Budget (0.4%). This slowdown is mainly explained by the fact that the State Budget transfer, designed to ensure the financial balance of the Civil Servants Pension Scheme, had increased by a greater amount (+733 M€) in 2015 than in 2016 (+60 M€). The 2016 revenue growth also flowed from the increase in contributions received (+1.8%), as the impact of the wage replacement in 2016 more than offset the effect of the decline in the average number of subscribers.

The increase in effective Civil Servants Pension Scheme expenditure decelerate from 2.1% in 2015 to 0.1% in 2016, which represents a lower variation than estimated in the State Budget (+0.6%). Having increased 1.8% in 2015, Civil Servants Pension Scheme pensions and allowances expenditure fell by 0.1% in 2016, which contrasts with the 0.3% increase forecasted for the year as a whole. Such decrease results from the combined effect of the reduction in the total number of pensioners (which occurred for the first time since 1969 along with the lowest number of new pensioners since 1993) and the decrease in the new retirement pension average value for the third consecutive year. However, the imbalance between the number of pensioners and the number of subscribers increased in 2016, since the reduction in Civil Servants Pension Scheme subscribers was greater than the fall in total pensioners.

### *2017 Budget*

The State Budget for 2017 foresees a 441 M€ deterioration in the fiscal balance (from 1532 M€ in 2016 to 1091 M€ in 2017) as the increase in expenditure (+1298 M€) is expected to exceed that of revenue (+856 M€). This development was driven by the estimated updating of the social benefits, the establishment of a new disability benefit, as well as the favourable outlook in the labour market which impacts positively on social contributions (+607 M€) and unemployment and employment support benefits (-43 M€). In addition, State transfers will be smaller (-93 M€), mainly as a result of the decrease in the SB extraordinary transfer (down 220 M€). This reduces the Insurance System dependency, although an increase (119 M€) is forecasted in the transfer required by the Social Security Framework Law due to the increase in non-contributory expenditure.

Regarding Civil Servants Pension Scheme, the State Budget for 2017 foresees a decrease in the budget surplus giving rise to a practically balanced budget in 2017. Revenue should stabilise because the expected fall in contributions will be more than offset by the increase in transfers and "other current revenue". The decline in revenue from contributions is based on the expectation of an increase in the number of subscribers becoming pensioners. This should have a greater impact than the positive effect resulting from the wage replacement in place from the beginning of the year, which was not the case in 2016. Effective expenditure should increase by 1%, due to pensions and allowances. This increase will be driven by the 2017 pensions update, some of which will receive an additional extraordinary increase from August onwards.