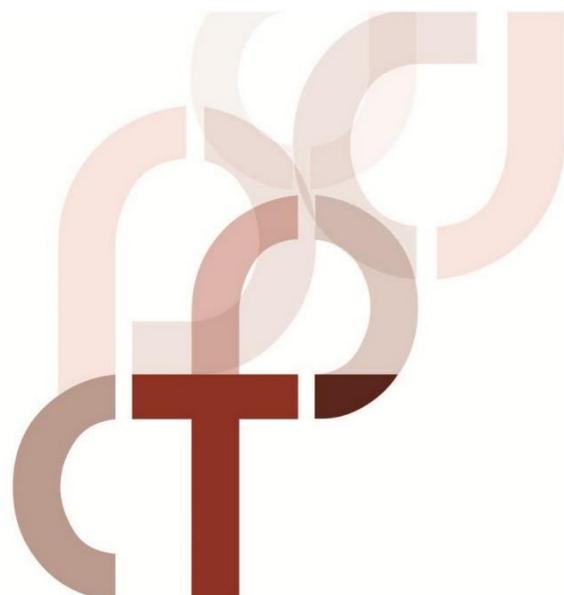


Executive summary



Analysis of the Social Security and Civil Servants
Pension Agency budget outturn in the 1st half of 2015

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EXECUTIVE SUMMARY

Analysis of the Social Security and Civil Servants Insurance System budget outcome in the 1st half of 2015

Social Security budget outcome for 1st half of 2015

From January to June 2015, Social Security recorded a surplus of 915 million euros (M€) in the public accounts. Net of the impact of the European Social Fund, the budget balance totalled 886 M€, which represents an improvement of 258 M€ compared to the previous year. This outcome was the result of an improvement in expenditure (down 1.9%), maintaining the trend initiated in 2014, and of an improvement in revenue, which at the end of June showed a 0.4% year-on-year increase.

In the first half of 2015, Social Security revenue grew at a slower rate than that expected for the full year, which reflects a sharper decrease in State Budget transfers when compared to the increase in revenue from employers' and employees' contributions. Revenue from employers' and employees' contributions benefitted from the recovery in the labour market, where both employment and average declared earnings rose by 4.5% in year-on-year terms. Nonetheless the employers' and employees' contributions growth rate remains below the target laid down in the 2015 Social Security Budget.

Developments in the labour market also accounted for the decrease in Social Security expenditure, mainly due to a reduction in spending on unemployment benefits and job support measures. This reflects the gradual fall in the number of people receiving unemployment benefits. As for spending on pensions, the trend seen in the first half of 2015 (+0.7%) suggests that the measures implemented in 2014 and 2015 are easing the budgetary burden on this account and explain the 0.4% decrease in the number of pensions between June 2014 and June 2015.

Even excluding the extraordinary State Budget transfer there was an improvement in Social Security's financial position, which in the first half of the year recorded a budget surplus (of 439 M€ up to June), thus reversing the deficit position of recent years. The improved economic climate, which reflected the fall in the number of unemployed and the rise in employment in the first half of the year, contributed to the decrease in the Providential System's financial imbalance. Taking the extraordinary State Budget transfer out of the equation, the system recorded a surplus of 201 M€ in the first half of 2015, which contrasts with the 300 M€ deficit recorded over the same period the previous year. However, this balance does not yet reflect the impact of holiday bonuses on both the revenue and expenditure sides.

Civil Servants Pension Agency budget outturn for 1st half of 2015

In the first half of 2015 the Civil Servants Pension Agency recorded a surplus of 240 M€. This was a year-on-year improvement of 223 M€, which can be explained by the favourable outturn in revenue (+4.9%), that grew faster than expenditure (3.2%).

The increase in revenue up to June is in line with the forecast for the full year (244 M€). However, it should be stressed that this increase reflects in essence the rise in the State Budget transfer (258 M€) to partially offset the fall in contributions revenue resulting from the decrease in earnings subject to the Extraordinary Solidarity Contribution. Net of this contribution, employers' and employees' contributions revenue performed favourably to the extent that it exceeded the forecast for the year as a whole, increasing by 3.5% in year-on-year terms. This improvement arose despite the 4.1% decrease in the average number of contributors to the Civil Servants Pension Scheme *vis-à-vis* the first half of 2014.

The Civil Servants Pension Scheme cumulative expenditure accelerated, compared to 2014, rising by 142 M€ in year-on-year terms. This outcome reflects an average increase of 4.2% in the total number of pensioners, which was offset by the decline in the number of new retirement pensions granted between January and June 2015, which fell by an average of 3.7% compared to the same period in 2014.