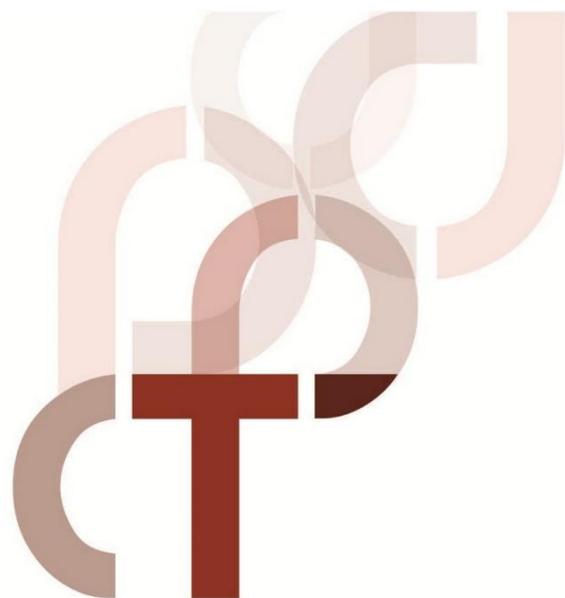


Executive Summary



Social Security and Civil Servants Pension Scheme Budget Outturn 2018

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EXECUTIVE SUMMARY

Budget implementation of Social Security in the 1st half of 2019

Between January and June 2019, Social Security recorded a surplus of 2.141 million euros (M€) in cash accounting. Excluding the impact of the European Social Fund (ESF) and of the Fund for European Aid to the Most Deprived (FEAD), it reached a surplus of 2.082 M€, of which 1.560 M€ in the Welfare System and 522 M€ in the Social Protection and Citizenship System. The largest contribution was made by the Distributional Welfare Subsystem, integrated in the Welfare System which, adjusted for the European Social Fund, went from a surplus of 912 M€ in the 1st half of 2018 to 1.185 M€ in the same period of 2019.

Excluding the ESF and FEAD transfers, the effective revenue of Social Security grew 6.9%, a variation higher than the 5.2% forecast implicit in the Social Security Budget for 2019 (OSS/2019). This result reflects a 8.6% growth in revenue from contributions and levies in the first half of the year (above the 5.1% expected in the OSS/2019), benefiting from the recovery of the labour market, the number of workers and the average value of wages declared, which showed a slight increase in year-on-year terms (0.6%).

Social Security's expenditure, excluding the expenditure based on ESF and FEAD, grew 5.1% (or 560 M€) in the first half of 2019. Its evolution shows the year-on-year growth in pension costs (5.2%), the extraordinary pension update portion (86.6%), the social benefit for inclusion (32.5%) and the sickness supplement and allowance (11.2%). The OSS/2019 points to an increase in expenditure of 7.1%.

The behavior of the expenditure with pensions reflects the update of the pensions' value, given that the average number of pensions remained virtually unchanged from that recorded in the same period of the previous year. The average number of pensions (old-age, survival and disability) reached 2 921 651 at the end of June 2019, less 4.003 than at the end of June 2018. This decrease is explained by the reduction of the average number of survivor's pensions (6127), as the average number of disability and old-age pensions increased by 2086 and 38, respectively. The evolution of the labour market, with the gradual reduction in the number of beneficiaries of unemployment benefits, continues to impose itself as a determining factor in the attenuation of the growth of social security expenditure, translating into a reduction in the cost of unemployment benefits.

Budget implementation of Civil Servants Pension Scheme (CGA) in the 1st half of 2019

Civil Servants Pension Scheme (CGA) achieved a budget surplus of 173 M€ in the first half of 2019, which contrasts with the 60 M€ deficit foreseen in the 2019 State Budget (OE/2019). Compared to the same period of the previous year, there was an improvement of 95 M€, benefiting from an accounting change in the current year within the scope of withholding taxes on pensions paid by CGA. In comparable terms, CGA's budget surplus decreased by 24 M€.

CGA's effective revenue growth in the first half of the year (0.7%) is above the forecast for the year as a whole (0.2%). The State Budget transfers grew more sharply than implied in the 2019 State Budget and contributions to CGA showed a less intense reduction. The revenue from levies and contributions decreased by 2.6% in the first half of 2019, following a 2.3% reduction in the

average number of subscribers, although the respective wage bill recorded an increase of 0.2% (in a context of gradual defrosting of career progressions of the General Government staff). "Other current revenues" (mainly interests received within the scope of the financial management of special reserves) decreased, in contrast to the annual increase implied in the 2019 State Budget.

The year-on-year variation in the effective expenditure of CGA (-1.6%) is influenced by this accounting change. In comparable terms, CGA's effective expenditure increased by 1.3% until June, with an expected increase of 1.9% for the year as a whole. The expenditure with pensions and allowances under CGA's responsibility (which represents approximately 90% of the actual expenditure forecast for 2019) increased by 0.7% in adjusted terms, below the 1.3% forecast for the year as a whole.

The number of retirees, excluding those who receive a survivors' pension, reached 478 336 at the end of June 2019, less 1.422 than at the end of June 2018. This reduction was mainly due to the decrease in the number of "old-age and other pensions" (-940) and, to a lesser extent, disability pensions (-482).

The negative difference between the number of subscribers and the number of retirees continues to widen. At the end of June 2019, this difference amounted to -40,569, corresponding to a year-on-year increase of 9695. This escalation - justified by the fact that the rate of reduction of subscribers (-2.5%) was sharper than that of the total number of retirees, excluding those who receive a survivors' pension (-0.3%) – inevitably contributed to the imbalance of the system, implying an increase in transfers from the State Budget.