



SOCIAL SECURITY AND CGA BUDGET OUTTURN IN 2020

EXECUTIVE SUMMARY

May 2021





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Budget execution of Social Security in 2020

In 2020, the overall balance of Social Security, net of the effects of the European Social Fund (ESF) and the European Fund for Assistance to the Most Deprived (FEAC), reached a surplus of 2060 M€ in terms of public budget accounting. This result reflects surpluses of €1,639 million in the Social Security System (Distribution and Capitalization) and €421 million in the Social Protection of Citizenship System. In the field of the Welfare System, it was the balance of the Welfare-Capitalisation System that contributed most to this favourable development, with a budget surplus of €1 007 million, which was higher than the positive balance of €631 million obtained by the Welfare-Participation System. The positive contribution of the aforementioned systems is influenced by the fact that State transfers to finance the response measures to the pandemic crisis were higher than the amount of such expenditure, improving the balance by 595 M€. Compared to 2019, the budget surplus of the Social Security decreased by 729 M€, as a result of the economic and social effects triggered by the pandemic crisis that forced, in 2020, the adoption of a wide range of extraordinary support measures mainly directed to the protection of employment, household income, preservation of the activity of companies and social support.

Excluding the impact of exceptional and temporary expenditure (1897 M€) caused by the pandemic situation resulting from the SARS-CoV-2 virus, as well as transfers from the State Budget (OE) to finance it (2492 M€), and taking into account the fact that expenditure on unemployment and sickness benefits and social contributions are influenced by the current situation resulting from the pandemic crisis, a surplus of 1465 M€ would be obtained.

In any case, in 2020, the actual revenue of Social Security, excluding the ESF and FEAC, increased by 8.7% compared to the previous year, above the variation forecast in the revised Social Security Budget for 2020 (OSS/2020), which was 6.1%. This evolution is explained by the increase in transfers from the State Budget by 2581 M€ (34.1%), which incorporate the compensation for the loss of contributions due to the simplified lay-off, as well as the transfers from the State Budget under the exceptional measures implemented to address the pandemic situation caused by COVID-19, amounting to 549 M€ and

1944 M€, respectively. The positive contribution of the tax revenue assigned to the OSS should also be noted, with an increase of 183 M€ (12.9%) compared to 2019. This increase is justified by changes in social VAT, additional IMI and the contribution from the banking sector. With regard to additional IMI, in 2020, the transfer of the remaining unpaid amounts relating to the years between 2017 and 2019 (amounting to 173 M€) was made. In contrast, the revenue from contributions and contributions decreased by €144 million (-0.8%) compared to 2019, reflecting the impact caused by the COVID-19 disease pandemic.

Social Security expenditure, adjusted for those effects, grew by 12.5% (or 3230 M€) compared to the previous year, below the 15.8% forecast in the budgetary programming document for 2020. This execution reflects the impact of the deterioration of the macroeconomic scenario resulting from the pandemic crisis, the action of automatic stabilizers, through unemployment benefits, but also the budgetary impact of exceptional measures to respond to the economic, social and health effects triggered by this epidemiological phenomenon. Excluding the impact of the exceptional and temporary measures identified by Social Security in 2020, in the amount of 1897 M€, actual expenditure would have increased by 5.2% compared to 2019.

Budget execution of Caixa Geral de Aposentações in 2020

Caixa Geral de Aposentações (CGA) reached a budget surplus of 72 M€ in 2020, from a public budget accounting perspective. In comparable terms, i.e. without the effect of the exception authorized in January 2019, in the sense of not accounting as budgetary expenditure the taxes withheld from pensions in the previous month, the balance recorded an improvement of 139 M€ compared to 2019, and the increase in revenue (2.8%) was twice as high as the increase in expenditure (1.4%).

In 2020, CGA revenue amounted to €10 266 million, €282 million more than in the previous year. This favourable evolution was mainly due to the increase in current transfers (+159 M€, including an additional 124 M€ relating to the State Budget contribution to ensure the financial balance of the CGA) and contributions to the CGA. The latter increased by 121 M€ (or 3.0%), despite the sharp reduction in the average number of subscribers, from -2.5% in 2019 to -3.1% in 2020. The increase in contributions was due to the effect of the deceleration of careers and remuneration increases, as well as the legal calendar for the delivery of contributions (entities may choose to pay in the month itself or by the 15th of the following month to which they relate).

CGA expenditure totalled 10 194 M€ in 2020, which, in comparable terms, corresponds to an increase of 143 M€ compared to 2019. This evolution was mainly justified by the increase in expenditure on pensions and allowances of 134 M€, of which 91 M€ more in

pensions and allowances under the responsibility of CGA. The increase in expenditure on pensions and allowances of the responsibility of CGA (adjusted for the effect arising from the exception authorized in January 2019) was induced by a volume effect (the average number of retirees rose from 478,860 in 2019 to 481,796 in 2020) and a price effect resulting from the following factors: i) regular and extraordinary update of pensions of the convergent social protection regime; ii) increase in the average value of retirement pensions by 13€, to 1342€ in 2020 and; iii) allocation of 1257 new retirement pensions than in 2019, with the respective average value increasing by 229€, to 1328€ in 2020.

The negative differential between the number of retirees and the number of subscribers increased once again and the active/inactive ratio continued its downward trend: 0.86 active subscribers for each retiree, compared to 0.90 at the end of 2019. This negative trend contributes to the system's structural imbalance and is determined by the fact that the CGA scheme has been closed to new subscribers since 1 January 2006.

The budget surplus achieved by the CGA compares favourably with the deficit of 67 M€ forecast in the State Budget for 2020 (and which was not altered in the revised State Budget for 2020). The corresponding positive deviation of 140 M€ results from the fact that revenue was 184 M€ above the forecast and expenditure exceeded the initial forecast by 44 M€. In the case of revenue, the increase recorded (2.8%) was higher than that implicit in the State Budget for 2020 (1.0%), mainly because revenue from quotas and contributions increased by 117 M€, although a reduction of 107 M€ had been forecast. On the expenditure side, in comparable terms, the 1.4% growth was higher than that underlying the OE/2020 (1.0%), mainly due to the fact that expenditure on pensions and allowances under the responsibility of CGA was €54 M higher than forecast.

Budget for 2021

The Social Security Budget for 2021 (OSS/21) foresees a deterioration of the budget surplus of the Social Security Subsector, anticipating a surplus of 640 M€, 1,420 M€ lower than the provisional balance of 2020. This result reflects the expected decrease in revenue (-€1 150 M), justified by the reduction in transfers from the State Budget under the exceptional and temporary measures adopted due to the pandemic situation, and simultaneously an increase in expenditure (€271 M). Excluding from the budgetary position of Social Security in 2021, the effect caused by the above-mentioned measures - measured exclusively by the amount identified relative to the exceptional and temporary measures implemented and not accounting for the impact of the macroeconomic environment on expenditure on unemployment and sickness benefits, as well as the loss of social contributions - would result in a surplus of 769 M€.

For 2021, the actual revenue of Social Security, excluding ESF and FEAC, is expected to decrease by 3.7%, which is €1.150 million less than the provisional estimate for 2020. This result is expected to be determined by the decreases in transfers from the State Budget, particularly those related to exceptional and temporary measures (COVID-19), the additional IMI tax and compliance with the Basic Law on Social Security (LBSS).

Actual Social Security expenditure, also excluding the impact of the ESF and FEAC, should register an increase of 0.9% (271 M€), despite the expected reduction in the value of the exceptional measures adopted under COVID-19. This forecast is based on the increase in social benefits, determined by the extraordinary updates (price effect) and the change in the number of beneficiaries (volume effect), particularly for expenditure on pensions and other benefits belonging to the non-contributory scheme. The OSS/21 implies a 3.6% increase in pension expenditure (+661 M€).

As for the CGA, according to its budget for 2021, the overall balance is expected to deteriorate by 154 M€ and go into deficit by 81 M€. The materialization of this forecast will imply a reversal of the surplus path of the CGA balance recorded in the last six years. However, if in 2021 a favourable deviation similar in magnitude to that observed in revenue from contributions and contributions in the last three years (on average, it was about 150 M€ higher than expected) is again observed, the budgetary balance of the CGA will remain in surplus.

CGA revenue should decrease by €128 M (or -1.2%) in 2021, mainly due to a €253 M reduction in contributions (which may be less sharp than expected, taking into account what was mentioned in the previous paragraph). In the opposite direction, the State Budget's financial contribution to the balance of the CGE should increase by 64 M€, notwithstanding the forecast reduction in pension expenditure under the responsibility of the CGA. Transfers from the State Budget as compensation for pension payments should increase (+€15 million), in line with the forecast increase in expenditure on pensions and allowances of the State's responsibility (+€14 million). Under "other current revenue", the CGA foresees an increase of 45 M€, justified by the expectation of greater interest receipts from financial institutions.

CGA expenditure is expected to grow by 26 M€ (or 0.3%) in 2021, of which 13 M€ more from current transfers and 13 M€ more from "other current expenditure". In the context of current transfers, an increase of only 7 M€ is forecast in expenditure with pensions and other allowances, as a result of the combined effect of an increase in expenditure with pensions and allowances under the responsibility of the State (+14 M€) and other entities (+6 M€) and a reduction in expenditure with pensions and allowances under the responsibility of the CGA (-14 M€). According to information provided by CGA, this expected increase of 7 M€ in expenditure on pensions and other allowances is not supported by the assumptions made by this entity,

having resulted from a reduction of 153.7 M€ compared to the value that had been initially proposed, and of which CGA only became aware when the State Budget for 2021 was approved.

